

Stock Yards Bancorp, Inc.
Form 10-Q
May 07, 2015
[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2015

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission file number 1-13661

STOCK YARDS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of

61-1137529
(I.R.S. Employer

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

incorporation or organization)

Identification No.)

1040 East Main Street, Louisville, Kentucky 40206

(Address of principal executive offices including zip code)

(502) 582-2571

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes " No x

The number of shares of the registrant's Common Stock, no par value, outstanding as of April 24, 2015, was 14,806,400.

Table of Contents

STOCK YARDS BANCORP, INC. AND SUBSIDIARY

Index

| Item | Page |
|---|-------------|
| PART I FINANCIAL INFORMATION | |
| Item 1. <u>Financial Statements</u> | |
| The following consolidated financial statements of Stock Yards Bancorp, Inc. and Subsidiary are submitted herewith: | |
| - | 2 |
| | 3 |
| | 4 |
| | 5 |
| | 6 |
| | 7 |
| <u>Item 2.</u> | 38 |
| <u>Item 3.</u> | 55 |
| <u>Item 4.</u> | 55 |
| PART II OTHER INFORMATION | |
| <u>Item 2.</u> | 55 |
| <u>Item 6.</u> | 56 |

Table of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

March 31, 2015 and December 31, 2014

(In thousands, except share data)

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|----------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 33,889 | \$ 42,216 |
| Federal funds sold | 23,630 | 32,025 |
| Cash and cash equivalents | 57,519 | 74,241 |
| Mortgage loans held for sale | 6,481 | 3,747 |
| Securities available-for-sale (amortized cost of \$465,031 in 2015 and \$509,276 in 2014) | 471,702 | 513,056 |
| Federal Home Loan Bank stock and other securities | 6,347 | 6,347 |
| Loans | 1,874,010 | 1,868,550 |
| Less allowance for loan losses | 24,882 | 24,920 |
| Net loans | 1,849,128 | 1,843,630 |
| Premises and equipment, net | 40,060 | 39,088 |
| Bank owned life insurance | 30,329 | 30,107 |
| Accrued interest receivable | 6,133 | 5,980 |
| Other assets | 44,564 | 47,672 |
| Total assets | \$ 2,512,263 | \$ 2,563,868 |
| Liabilities and Stockholders Equity | | |
| Deposits: | | |
| Non-interest bearing | \$ 531,190 | \$ 523,947 |
| Interest bearing | 1,579,039 | 1,599,680 |
| Total deposits | 2,110,229 | 2,123,627 |
| Securities sold under agreements to repurchase | 59,877 | 69,559 |
| Federal funds purchased | 14,437 | 47,390 |
| Accrued interest payable | 127 | 131 |
| Other liabilities | 23,248 | 26,434 |
| Federal Home Loan Bank advances | 36,744 | 36,832 |
| Total liabilities | 2,244,662 | 2,303,973 |
| Stockholders equity: | | |
| Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding | | |
| Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 14,795,148 and 14,744,684 shares in 2015 and 2014, respectively | 10,203 | 10,035 |
| Additional paid-in capital | 39,352 | 38,191 |
| Retained earnings | 214,100 | 209,584 |
| Accumulated other comprehensive income | 3,946 | 2,085 |
| Total stockholders equity | 267,601 | 259,895 |
| Total liabilities and stockholders equity | \$ 2,512,263 | \$ 2,563,868 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Income

For the three months ended March 31, 2015 and 2014 (Unaudited)

(In thousands, except per share data)

| | 2015 | 2014 |
|---|-----------|-----------|
| Interest income: | | |
| Loans | \$ 20,415 | \$ 19,359 |
| Federal funds sold | 68 | 79 |
| Mortgage loans held for sale | 39 | 31 |
| Securities taxable | 2,034 | 1,837 |
| Securities tax-exempt | 291 | 298 |
| Total interest income | 22,847 | 21,604 |
| Interest expense: | | |
| Deposits | 973 | 1,140 |
| Federal funds purchased | 7 | 6 |
| Securities sold under agreements to repurchase | 37 | 34 |
| Federal Home Loan Bank advances | 216 | 196 |
| Total interest expense | 1,233 | 1,376 |
| Net interest income | 21,614 | 20,228 |
| Provision for loan losses | | 350 |
| Net interest income after provision for loan losses | 21,614 | 19,878 |
| Non-interest income: | | |
| Investment management and trust revenue | 4,552 | 4,568 |
| Service charges on deposit accounts | 2,080 | 2,103 |
| Bankcard transaction revenue | 1,122 | 1,075 |
| Mortgage banking revenue | 828 | 588 |
| Brokerage commissions and fees | 461 | 505 |
| Bank owned life insurance income | 222 | 236 |
| Other | 408 | 400 |
| Total non-interest income | 9,673 | 9,475 |
| Non-interest expenses: | | |
| Salaries and employee benefits | 11,100 | 11,118 |
| Net occupancy expense | 1,469 | 1,556 |
| Data processing expense | 1,454 | 1,560 |
| Furniture and equipment expense | 247 | 268 |
| FDIC insurance expense | 297 | 342 |
| Loss (gain) on other real estate owned | 20 | (343) |
| Other | 3,192 | 3,043 |
| Total non-interest expenses | 17,779 | 17,544 |
| Income before income taxes | 13,508 | 11,809 |
| Income tax expense | 4,253 | 3,632 |
| Net income | \$ 9,255 | \$ 8,177 |
| Net income per share: | | |
| Basic | \$ 0.63 | \$ 0.56 |
| Diluted | \$ 0.62 | \$ 0.56 |
| Average common shares: | | |
| Basic | 14,647 | 14,506 |
| Diluted | 14,852 | 14,701 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

STOCK YARDS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2015 and 2014 (Unaudited)

(In thousands)

| | 2015 | 2014 |
|--|-------------|-------------|
| Net income | \$ 9,255 | \$ 8,177 |
| Other comprehensive income, net of tax: | | |
| Unrealized gains on securities available-for-sale: | | |
| Unrealized gains arising during the period (net of tax of \$1,011 and \$1,091, respectively) | 1,880 | 2,026 |
| Unrealized (losses) gains on hedging instruments: | | |
| Unrealized (losses) gains arising during the period (net of tax of (\$9) and \$12, respectively) | (19) | 21 |
| Other comprehensive income | 1,861 | 2,047 |
| Comprehensive income | \$ 11,116 | \$ 10,224 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Changes in Stockholders' Equity

For the three months ended March 31, 2015 and 2014 (Unaudited)

(In thousands, except per share data)

| | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income | Total |
|--|---------------------|-----------|-------------------------------|----------------------|---|------------|
| | Number of shares | Amount | | | | |
| Balance December 31, 2013 | 14,609 | \$ 9,581 | \$ 33,255 | \$ 188,825 | \$ (2,217) | \$ 229,444 |
| Net income | | | | 8,177 | | 8,177 |
| Other comprehensive income, net of tax | | | | | 2,047 | 2,047 |
| Stock compensation expense | | | 290 | | | 290 |
| Stock issued for exercise of stock options, net of withholdings to satisfy employee tax obligations upon vesting of stock awards | 22 | 75 | 601 | (23) | | 653 |
| Stock issued for non-vested restricted stock | 40 | 131 | 1,015 | (1,146) | | |
| Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award | 5 | 18 | (112) | | | (94) |
| Cash dividends, \$0.21 per share | | | | (3,075) | | (3,075) |
| Shares repurchased or cancelled | (17) | (56) | (435) | 25 | | (466) |
| Balance March 31, 2014 | 14,659 | \$ 9,749 | \$ 34,614 | \$ 192,783 | \$ (170) | \$ 236,976 |
| Balance December 31, 2014 | 14,745 | \$ 10,035 | \$ 38,191 | \$ 209,584 | \$ 2,085 | \$ 259,895 |
| Net income | | | | 9,255 | | 9,255 |
| Other comprehensive income, net of tax | | | | | 1,861 | 1,861 |
| Stock compensation expense | | | 501 | | | 501 |
| Stock issued for exercise of stock options, net of withholdings to satisfy employee tax obligations upon vesting of stock awards | 13 | 42 | 424 | (17) | | 449 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

| | | | | | | | | |
|---|--------|-----------|-----------|------------|----------|----|--|---------|
| Stock issued for non-vested restricted stock | 35 | 116 | 1,085 | (1,201) | | | | |
| Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award | 18 | 61 | (397) | (128) | | | | (464) |
| Cash dividends, \$0.23 per share | | | | (3,393) | | | | (3,393) |
| Shares repurchased or cancelled | (16) | (51) | (452) | | | | | (503) |
| Balance March 31, 2015 | 14,795 | \$ 10,203 | \$ 39,352 | \$ 214,100 | \$ 3,946 | \$ | | 267,601 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Cash Flows

For the three months ended March 31, 2015 and 2014 (Unaudited)

(In thousands)

| | 2015 | 2014 |
|--|-----------|-----------|
| Operating activities: | | |
| Net income | \$ 9,255 | \$ 8,177 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | | 350 |
| Depreciation, amortization and accretion, net | 1,672 | 1,688 |
| Deferred income tax provision | 1,090 | 701 |
| Gain on sales of mortgage loans held for sale | (560) | (341) |
| Origination of mortgage loans held for sale | (27,100) | (17,617) |
| Proceeds from sale of mortgage loans held for sale | 24,926 | 16,242 |
| Bank owned life insurance income | (222) | (236) |
| Loss (gain) on the disposal of premises and equipment | 9 | (30) |
| Loss (gain) on the sale of other real estate | 20 | (343) |
| Stock compensation expense | 501 | 290 |
| Excess tax benefits from share-based compensation arrangements | (154) | (149) |
| Decrease in accrued interest receivable and other assets | 237 | 514 |
| Decrease in accrued interest payable and other liabilities | (3,036) | (2,090) |
| Net cash provided by operating activities | 6,638 | 7,156 |
| Investing activities: | | |
| Purchases of securities available-for-sale | (70,664) | (69,855) |
| Proceeds from sale of securities available for sale | 5,934 | |
| Proceeds from maturities of securities available-for-sale | 108,502 | 123,072 |
| Net increase in loans | (5,644) | (8,687) |
| Purchases of premises and equipment | (1,728) | (509) |
| Proceeds from disposal of equipment | | 344 |
| Proceeds from sale of other real estate | 272 | 3,962 |
| Net cash provided by investing activities | 36,672 | 48,327 |
| Financing activities: | | |
| Net (decrease) increase in deposits | (13,398) | 6,450 |
| Net decrease in securities sold under agreements to repurchase and federal funds purchased | (42,635) | (46,726) |
| Proceeds from Federal Home Loan Bank advances | 10,000 | 10,000 |
| Repayments of Federal Home Loan Bank advances | (10,088) | (10,041) |
| Issuance of common stock for options and performance stock units | 167 | 463 |
| Excess tax benefits from share-based compensation arrangements | 154 | 149 |
| Common stock repurchases | (839) | (519) |
| Cash dividends paid | (3,393) | (3,075) |
| Net cash used in financing activities | (60,032) | (43,299) |
| Net (decrease) increase in cash and cash equivalents | (16,722) | 12,184 |
| Cash and cash equivalents at beginning of period | 74,241 | 70,770 |
| Cash and cash equivalents at end of period | \$ 57,519 | \$ 82,954 |
| Supplemental cash flow information: | | |
| Income tax payments | 1 | |
| Cash paid for interest | 1,237 | 1,379 |
| Supplemental non-cash activity: | | |
| Transfers from loans to other real estate owned | \$ 146 | \$ 1,137 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

STOCK YARDS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes required by U.S. generally accepted accounting principles (US GAAP) for complete financial statements. The consolidated unaudited financial statements of Stock Yards Bancorp, Inc. (Bancorp) and its subsidiary reflect all adjustments (consisting only of adjustments of a normal recurring nature) which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods.

The unaudited consolidated financial statements include the accounts of Stock Yards Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company (Bank). Significant intercompany transactions and accounts have been eliminated in consolidation. In preparing the unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of related revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of other real estate owned and income tax assets, and estimated liabilities and expense.

A description of other significant accounting policies is presented in the notes to the Consolidated Financial Statements for the year ended December 31, 2014 included in Stock Yards Bancorp, Inc.'s Annual Report on Form 10-K. Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Interim results for the three month period ended March 31, 2015 are not necessarily indicative of the results for the entire year.

Critical Accounting Policies

Management has identified the accounting policy related to the allowance and provision for loan losses as critical to the understanding of Bancorp's results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. Since the application of this policy requires significant management assumptions and estimates, it could result in materially different amounts to be reported if conditions or underlying circumstances were to change. Assumptions include many factors such as changes in borrowers' financial condition which can change quickly or historical loss ratios related to certain loan portfolios which may or may not be indicative of future losses. To the extent that management's assumptions prove incorrect, the results from operations could be materially affected by a higher or lower provision for loan losses. The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

The allowance for loan losses is management's estimate of probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Bancorp's allowance calculation includes specific allowance allocations to loan portfolio segments at March 31, 2015 for qualitative factors including, among other factors, national and local economic and business conditions, the quality and experience of lending staff and management, changes in lending policies and procedures, changes in volume and severity of past due loans, classified loans and non-performing loans, potential impact of any concentrations of credit, changes in the nature and terms of loans such as growth rates and utilization rates, changes in the value of underlying collateral for collateral-

Table of Contents

dependent loans, considering Bancorp's disposition bias, and the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp's loan review process. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates. Bancorp utilizes the sum of all allowance amounts derived as described above as the appropriate level of allowance for loan and lease losses.

(2) Securities

The amortized cost, unrealized gains and losses, and fair value of securities available for sale follow:

| (in thousands) March 31, 2015 | Amortized cost | Gains | Unrealized Losses | Fair value |
|---|-------------------|-----------------|----------------------|-------------------|
| U.S. Treasury and other U.S. Government obligations | \$ 60,000 | \$ | \$ | \$ 60,000 |
| Government sponsored enterprise obligations | 173,137 | 2,928 | 251 | 175,814 |
| Mortgage-backed securities - government agencies | 167,768 | 2,872 | 745 | 169,895 |
| Obligations of states and political subdivisions | 63,370 | 1,668 | 59 | 64,979 |
| Corporate equity securities | 756 | 258 | | 1,014 |
| Total securities available for sale | \$ 465,031 | \$ 7,726 | \$ 1,055 | \$ 471,702 |
| December 31, 2014 | | | | |
| U.S. Treasury and other U.S. Government obligations | \$ 70,000 | \$ | \$ | \$ 70,000 |
| Government sponsored enterprise obligations | 203,531 | 2,017 | 562 | 204,986 |
| Mortgage-backed securities - government agencies | 173,573 | 2,042 | 1,345 | 174,270 |
| Obligations of states and political subdivisions | 61,416 | 1,560 | 142 | 62,834 |
| Corporate equity securities | 756 | 210 | | 966 |
| Total securities available for sale | \$ 509,276 | \$ 5,829 | \$ 2,049 | \$ 513,056 |

Corporate equity securities, included in the available for sale portfolio, consist of common stock in a publicly-traded business development company.

There were no securities classified as held to maturity as of March 31, 2015 or December 31, 2014.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

In the first quarter of 2015, Bancorp sold securities with total fair market value of \$5.9 million, generating no gain or loss. These securities consisted of agency and mortgage-backed securities with small remaining balances and agency securities. These sales were made in the ordinary course of portfolio management. No securities were sold in the first quarter of 2014. Management has the intent and ability to hold all remaining investment securities available for sale for the foreseeable future.

Table of Contents

A summary of the available for sale investment securities by maturity groupings as of March 31, 2015 is shown below.

| (in thousands) | | | |
|-------------------------------------|----|----------------|------------|
| Securities available for sale | | Amortized cost | Fair value |
| Due within 1 year | \$ | 82,268 | \$ 82,406 |
| Due after 1 but within 5 years | | 119,806 | 121,898 |
| Due after 5 but within 10 years | | 22,109 | 22,854 |
| Due after 10 years | | 72,324 | 73,635 |
| Mortgage-backed securities | | 167,768 | 169,895 |
| Corporate equity securities | | 756 | 1,014 |
| Total securities available for sale | \$ | 465,031 | \$ 471,702 |

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations. In addition to equity securities, the investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, and GNMA. These securities differ from traditional debt securities primarily in that they may have uncertain principal payment dates and are priced based on estimated prepayment rates on the underlying collateral.

Securities with a carrying value of approximately \$250.2 million at March 31, 2015 and \$263.1 million at December 31, 2014 were pledged to secure accounts of commercial depositors in cash management accounts, public deposits, and cash balances for certain investment management and trust accounts.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Securities with unrealized losses at March 31, 2015 and December 31, 2014, not recognized in the statements of income are as follows:

| (in thousands) March 31, 2015 | Less than 12 months | | 12 months or more | | Total | |
|--|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Government sponsored enterprise obligations | \$ 10,698 | \$ 11 | \$ 9,141 | \$ 240 | \$ 19,839 | \$ 251 |
| Mortgage-backed securities - government agencies | 13,832 | 82 | 35,065 | 663 | 48,897 | 745 |
| Obligations of states and political subdivisions | 7,639 | 36 | 2,667 | 23 | 10,306 | 59 |
| Total temporarily impaired securities | \$ 32,169 | \$ 129 | \$ 46,873 | \$ 926 | \$ 79,042 | \$ 1,055 |
| December 31, 2014 | | | | | | |
| Government sponsored enterprise obligations | \$ 36,979 | \$ 30 | \$ 26,848 | \$ 532 | \$ 63,827 | \$ 562 |
| Mortgage-backed securities - government agencies | 4,038 | 77 | 49,325 | 1,268 | 53,363 | 1,345 |
| Obligations of states and political subdivisions | 12,655 | 67 | 6,297 | 75 | 18,952 | 142 |
| Total temporarily impaired securities | \$ 53,672 | \$ 174 | \$ 82,470 | \$ 1,875 | \$ 136,142 | \$ 2,049 |

The applicable dates for determining when securities are in an unrealized loss position are March 31, 2015 and December 31, 2014. As such, it is possible that a security had a market value lower than its amortized cost on other days during the past twelve months, but is not in the Investments with an Unrealized Loss of less than 12 months category above.

Unrealized losses on Bancorp's investment securities portfolio have not been recognized in income because the securities are of high credit quality, and the decline in fair values is due to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach their maturity date and/or the interest rate environment returns to conditions similar to when these securities were purchased. These investments consist of 49 and 80 separate investment positions as of March 31, 2015 and December 31, 2014, respectively. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at March 31, 2015.

FHLB stock and other securities are investments held by Bancorp which are not readily marketable and are carried at cost. This category includes holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock which are required for access to FHLB borrowing, and are classified as restricted securities.

Table of Contents**(3) Loans**

The composition of loans by primary loan portfolio class follows:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Commercial and industrial | \$ 594,980 | \$ 588,200 |
| Construction and development, excluding undeveloped land | 99,846 | 95,733 |
| Undeveloped land | 19,995 | 21,268 |
| Real estate mortgage: | | |
| Commercial investment | 486,371 | 487,822 |
| Owner occupied commercial | 341,454 | 340,982 |
| 1-4 family residential | 191,004 | 195,102 |
| Home equity - first lien | 45,288 | 43,779 |
| Home equity - junior lien | 65,824 | 66,268 |
| Subtotal: Real estate mortgage | 1,129,941 | 1,133,953 |
| Consumer | 29,248 | 29,396 |
| Total loans | \$ 1,874,010 | \$ 1,868,550 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment evaluation method as of March 31, 2015 and December 31, 2014.

| (in thousands) March 31, 2015 | Type of loan | | | | | Total |
|---|---------------------------|---|------------------|----------------------|-----------|--------------|
| | Commercial and industrial | Construction and development excluding undeveloped land | Undeveloped land | Real estate mortgage | Consumer | |
| Loans | \$ 594,980 | \$ 99,846 | \$ 19,995 | \$ 1,129,941 | \$ 29,248 | \$ 1,874,010 |
| Loans collectively evaluated for impairment | \$ 587,861 | \$ 98,849 | \$ 19,995 | \$ 1,125,536 | \$ 29,169 | \$ 1,861,410 |
| Loans individually evaluated for impairment | \$ 7,041 | \$ 516 | \$ | \$ 3,905 | \$ 74 | \$ 11,536 |
| Loans acquired with deteriorated credit quality | \$ 78 | \$ 481 | \$ | \$ 500 | \$ 5 | \$ 1,064 |

Allowance for loan losses

| | | | | | | |
|----------------------|-----------|--------|----------|-----------|--------|-----------|
| At December 31, 2014 | \$ 11,819 | \$ 721 | \$ 1,545 | \$ 10,541 | \$ 294 | \$ 24,920 |
| Provision (credit) | (24) | 74 | (398) | 378 | (30) | |
| Charge-offs | (12) | | | (63) | (139) | (214) |
| Recoveries | 7 | | | 15 | 154 | 176 |
| At March 31, 2015 | \$ 11,790 | \$ 795 | \$ 1,147 | \$ 10,871 | \$ 279 | \$ 24,882 |

| | | | | | | |
|---|-----------|--------|----------|-----------|--------|-----------|
| Allowance for loans collectively evaluated for impairment | \$ 11,204 | \$ 705 | \$ 1,147 | \$ 10,484 | \$ 205 | \$ 23,745 |
|---|-----------|--------|----------|-----------|--------|-----------|

| | | | | | | |
|---|--------|-------|----|--------|-------|----------|
| Allowance for loans individually evaluated for impairment | \$ 586 | \$ 90 | \$ | \$ 387 | \$ 74 | \$ 1,137 |
|---|--------|-------|----|--------|-------|----------|

| | | | | | | |
|---|----|----|----|----|----|----|
| Allowance for loans acquired with deteriorated credit quality | \$ | \$ | \$ | \$ | \$ | \$ |
|---|----|----|----|----|----|----|

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

| (in thousands) December 31, 2014 | Type of loan | | | | | | Total |
|---|---------------------------|---|------------------|----------------------|-----------|----|-----------|
| | Commercial and industrial | Construction and development excluding undeveloped land | Undeveloped land | Real estate mortgage | Consumer | | |
| Loans | \$ 588,200 | \$ 95,733 | \$ 21,268 | \$ 1,133,953 | \$ 29,396 | \$ | 1,868,550 |
| Loans collectively evaluated for impairment | \$ 580,889 | \$ 94,603 | \$ 21,268 | \$ 1,129,766 | \$ 29,311 | \$ | 1,855,837 |
| Loans individually evaluated for impairment | \$ 7,239 | \$ 516 | \$ | \$ 3,720 | \$ 76 | \$ | 11,551 |
| Loans acquired with deteriorated credit quality | \$ 72 | \$ 614 | \$ | \$ 467 | \$ 9 | \$ | 1,162 |

| | Commercial and industrial | Construction and development excluding undeveloped land | Undeveloped land | Real estate mortgage | Consumer | Unallocated | Total |
|---|---------------------------|---|------------------|----------------------|----------|-------------|-----------|
| Allowance for loan losses | | | | | | | |
| At December 31, 2013 | \$ 7,644 | \$ 2,555 | \$ 5,376 | \$ 12,604 | \$ 343 | \$ | \$ 28,522 |
| Provision (credit) | 4,593 | (1,584) | (2,244) | (1,190) | 25 | | (400) |
| Charge-offs | (661) | (250) | (1,753) | (993) | (587) | | (4,244) |
| Recoveries | 243 | | 166 | 120 | 513 | | 1,042 |
| At December 31, 2014 | \$ 11,819 | \$ 721 | \$ 1,545 | \$ 10,541 | \$ 294 | \$ | \$ 24,920 |
| Allowance for loans collectively evaluated for impairment | \$ 10,790 | \$ 706 | \$ 1,545 | \$ 10,285 | \$ 218 | \$ | \$ 23,544 |
| Allowance for loans individually evaluated for impairment | \$ 1,029 | \$ 15 | \$ | \$ 256 | \$ 76 | \$ | \$ 1,376 |
| Allowance for loans acquired with deteriorated credit quality | \$ | \$ | \$ | \$ | \$ | \$ | \$ |

The considerations by Bancorp in computing its allowance for loan losses are determined based on the various risk characteristics of each loan segment. Relevant risk characteristics are as follows:

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

- Commercial and industrial loans: Loans in this category are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan category.

- Construction and development, excluding undeveloped land: Loans in this category primarily include owner-occupied and investment construction loans and commercial development projects Bancorp finances. In most cases, these loans require only interest to be paid during construction, and then convert to permanent financing requiring principal amortization. Repayment is derived from sale of the units including any pre-sold units. Credit risk is affected by construction delays, cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.

Table of Contents

- **Undeveloped land:** Loans in this category are secured by land initially acquired for development by the borrower, but for which no development has yet taken place. Credit risk is affected by market conditions and time to sell at an adequate price. Credit risk is also affected by market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.
- **Real estate mortgage:** Loans in this category are made to and secured by owner-occupied residential real estate, owner-occupied real estate used for business purposes, and income-producing investment properties. Repayment is dependent on the credit quality of the individual borrower. The underlying properties are generally located in Bancorp's primary market area. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan category. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.
- **Consumer:** Loans in this category may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan. Therefore, the overall health of the economy, including unemployment rates and housing prices, will have a significant effect on the credit quality in this loan category.

Bancorp has loans that were acquired in a prior acquisition, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is included in the balance sheet amounts of loans at March 31, 2015 and December 31, 2014. Changes in the interest component of the fair value adjustment for acquired impaired loans are shown in the following table:

| (in thousands) | Accretable discount | Non- accretable discount |
|---|------------------------|--------------------------------|
| Balance at December 31, 2013 | \$ 137 | \$ 369 |
| Accretion | (75) | (103) |
| Reclassifications from (to) non-accretable difference | | |
| Disposals | | |
| Balance at December 31, 2014 | 62 | 266 |
| Accretion | (14) | |
| Reclassifications from (to) non-accretable difference | | |
| Disposals | | |
| Balance at March 31, 2015 | \$ 48 | \$ 266 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

The following tables present loans individually evaluated for impairment as of March 31, 2015 and December 31, 2014.

| (in thousands) March 31, 2015 | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|
| Loans with no related allowance recorded | | | | |
| Commercial and industrial | \$ 749 | \$ 1,857 | \$ | 823 |
| Construction and development, excluding undeveloped land | 26 | 151 | | 26 |
| Undeveloped land | | | | |
| Real estate mortgage | | | | |
| Commercial investment | 112 | 1,704 | | 113 |
| Owner occupied commercial | 1,330 | 1,398 | | 1,557 |
| 1-4 family residential | 721 | 721 | | 796 |
| Home equity - first lien | | | | |
| Home equity - junior lien | 109 | 109 | | 73 |
| Subtotal: Real estate mortgage | 2,272 | 3,932 | | 2,539 |
| Consumer | | | | |
| Subtotal | \$ 3,047 | \$ 5,940 | \$ | 3,388 |
| Loans with an allowance recorded | | | | |
| Commercial and industrial | \$ 6,292 | \$ 7,861 | \$ 586 | \$ 6,318 |
| Construction and development, excluding undeveloped land | 490 | 490 | 90 | 490 |
| Undeveloped land | | | | |
| Real estate mortgage | | | | |
| Commercial investment | 122 | 122 | | 122 |
| Owner occupied commercial | 1,432 | 1,811 | 243 | 1,074 |
| 1-4 family residential | 79 | 79 | 144 | 79 |
| Home equity - first lien | | | | |
| Home equity - junior lien | | | | |
| Subtotal: Real estate mortgage | 1,633 | 2,012 | 387 | 1,275 |
| Consumer | | | | |
| Subtotal | \$ 74 | \$ 74 | \$ 74 | \$ 75 |
| Total | | | | |
| Commercial and industrial | \$ 7,041 | \$ 9,718 | \$ 586 | \$ 7,141 |
| Construction and development, excluding undeveloped land | 516 | 641 | 90 | 516 |
| Undeveloped land | | | | |
| Real estate mortgage | | | | |
| Commercial investment | 234 | 1,826 | | 235 |
| Owner occupied commercial | 2,762 | 3,209 | 243 | 2,631 |
| 1-4 family residential | 800 | 800 | 144 | 875 |
| Home equity - first lien | | | | |
| Home equity - junior lien | 109 | 109 | | 73 |
| Subtotal: Real estate mortgage | 3,905 | 5,944 | 387 | 3,814 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

| | | | | | |
|----------|----|-----------|-----------|----------|--------|
| Consumer | | 74 | 74 | 74 | 75 |
| Total | \$ | 11,536 \$ | 16,377 \$ | 1,137 \$ | 11,546 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

| (in thousands) December 31, 2014 | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|
| Loans with no related allowance recorded | | | | |
| Commercial and industrial | \$ 896 | \$ 3,596 | \$ | 996 |
| Construction and development, excluding undeveloped land | 26 | 151 | | 26 |
| Undeveloped land | | | | 5,608 |
| Real estate mortgage | | | | |
| Commercial investment | 113 | 113 | | 198 |
| Owner occupied commercial | 1,784 | 2,221 | | 1,939 |
| 1-4 family residential | 870 | 870 | | 782 |
| Home equity - first lien | | | | 11 |
| Home equity - junior lien | 36 | 36 | | 69 |
| Subtotal: Real estate mortgage | 2,803 | 3,240 | | 2,999 |
| Consumer | | | | |
| Subtotal | \$ 3,725 | \$ 6,987 | \$ | 9,629 |
| Loans with an allowance recorded | | | | |
| Commercial and industrial | \$ 6,343 | \$ 7,914 | \$ 1,029 | \$ 6,797 |
| Construction and development, excluding undeveloped land | 490 | 490 | 15 | 196 |
| Undeveloped land | | | | |
| Real estate mortgage | | | | |
| Commercial investment | 122 | 122 | | 640 |
| Owner occupied commercial | 716 | 716 | 112 | 704 |
| 1-4 family residential | 79 | 79 | 144 | 651 |
| Home equity - first lien | | | | |
| Home equity - junior lien | | | | |
| Subtotal: Real estate mortgage | 917 | 917 | 256 | 1,995 |
| Consumer | | | | |
| Subtotal | \$ 76 | \$ 76 | \$ 76 | \$ 80 |
| Subtotal | \$ 7,826 | \$ 9,397 | \$ 1,376 | \$ 9,068 |
| Total | | | | |
| Commercial and industrial | \$ 7,239 | \$ 11,510 | \$ 1,029 | \$ 7,793 |
| Construction and development, excluding undeveloped land | 516 | 641 | 15 | 222 |
| Undeveloped land | | | | 5,608 |
| Real estate mortgage | | | | |
| Commercial investment | 235 | 235 | | 838 |
| Owner occupied commercial | 2,500 | 2,937 | 112 | 2,643 |
| 1-4 family residential | 949 | 949 | 144 | 1,433 |
| Home equity - first lien | | | | 11 |
| Home equity - junior lien | 36 | 36 | | 69 |
| Subtotal: Real estate mortgage | 3,720 | 4,157 | 256 | 4,994 |
| Consumer | | | | |
| Subtotal | \$ 76 | \$ 76 | \$ 76 | \$ 80 |
| Total | \$ 11,551 | \$ 16,384 | \$ 1,376 | \$ 18,697 |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Differences between recorded investment amounts and unpaid principal balance amounts less related allowance are due to partial charge-offs which have occurred over the life of loans and fair value adjustments recorded for loans acquired.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Impaired loans include non-accrual loans and loans accounted for as troubled debt restructurings (TDR), which continue to accrue interest. Non-performing loans include the balance of impaired loans plus any loans over 90 days past due and still accruing interest. Loans past due more than 90 days or more and still accruing interest amounted to \$1 thousand at March 31, 2015 and \$329 thousand at December 31, 2014.

The following table presents the recorded investment in non-accrual loans as of March 31, 2015 and December 31, 2014.

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Commercial and industrial | \$ 1,276 | \$ 1,381 |
| Construction and development, excluding undeveloped land | 516 | 516 |
| Undeveloped land | | |
| Real estate mortgage | | |
| Commercial investment | 234 | 235 |
| Owner occupied commercial | 2,344 | 2,081 |
| 1-4 family residential | 800 | 950 |
| Home equity - first lien | | |
| Home equity - junior lien | 109 | 36 |
| Subtotal: Real estate mortgage | 3,487 | 3,302 |
| Consumer | | |
| Total | \$ 5,279 | \$ 5,199 |

At March 31, 2015 and December 31, 2014, Bancorp had accruing loans classified as TDR of \$6.3 million and \$6.4 million, respectively. Bancorp did not modify and classify any loans as TDR during the three months ended March 31, 2015 or March 31, 2014.

Bancorp had no loans accounted for as TDR that were restructured and experienced a payment default within the previous 12 months as of March 31, 2015. The following table presents the recorded investment in loans accounted for as TDR that were restructured and experienced a payment default within the previous 12 months as of March 31, 2014.

| (dollars in thousands) March 31, 2014 | Number of Contracts | Recorded Investment |
|--|------------------------|------------------------|
| Commercial & industrial | 1 | \$ 790 |
| Total | 1 | \$ 790 |

Loans accounted for as TDR include modifications from original terms such as those due to bankruptcy proceedings, certain modifications of amortization periods or extended suspension of principal payments due to customer financial difficulties. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and, at March 31, 2015, had a total allowance allocation of \$612 thousand, compared to \$703 thousand at December 31, 2014.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

At March 31, 2015, Bancorp did not have any outstanding commitments to lend additional funds to borrowers whose loans have been modified as TDR, compared to \$458 thousand at December 31, 2014.

The following table presents the aging of the recorded investment in loans as of March 31, 2015 and December 31, 2014.

| (in thousands) March 31, 2015 | 30-59 days past due | 60-89 days past due | 90 or more days past due (includes non-accrual) | Total past due | Current | Total loans | Recorded investment > 90 days and accruing |
|---|------------------------|------------------------|--|-------------------|---------------------|---------------------|--|
| Commercial and industrial | \$ 175 | \$ 22 | \$ 1,277 | \$ 1,474 | \$ 593,506 | \$ 594,980 | 1 |
| Construction and development, excluding undeveloped land | | 232 | 516 | 748 | 99,098 | 99,846 | |
| Undeveloped land | | | | | 19,995 | 19,995 | |
| Real estate mortgage | | | | | | | |
| Commercial investment | 1,343 | 111 | 234 | 1,688 | 484,683 | 486,371 | |
| Owner occupied commercial | 374 | 692 | 2,344 | 3,410 | 338,044 | 341,454 | |
| 1-4 family residential | 1,786 | 727 | 800 | 3,313 | 187,691 | 191,004 | |
| Home equity - first lien | 100 | | | 100 | 45,188 | 45,288 | |
| Home equity - junior lien | 104 | 107 | 109 | 320 | 65,504 | 65,824 | |
| Subtotal: Real estate mortgage | 3,707 | 1,637 | 3,487 | 8,831 | 1,121,110 | 1,129,941 | |
| Consumer | 34 | 22 | | 56 | 29,192 | 29,248 | |
| Total | \$ 3,916 | \$ 1,913 | \$ 5,280 | \$ 11,109 | \$ 1,862,901 | \$ 1,874,010 | 1 |
| December 31, 2014 | | | | | | | |
| Commercial and industrial | \$ 3,860 | \$ 3 | \$ 1,382 | \$ 5,245 | \$ 582,955 | \$ 588,200 | 1 |
| Construction and development, excluding undeveloped land | 69 | | 757 | 826 | 94,907 | 95,733 | 241 |
| Undeveloped land | | | | | 21,268 | 21,268 | |
| Real estate mortgage | | | | | | | |
| Commercial investment | 993 | 249 | 235 | 1,477 | 486,345 | 487,822 | |

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

| | | | | | | | |
|--------------------------------|----------|----------|----------|-----------|--------------|--------------|-----|
| Owner occupied commercial | 1,272 | 920 | 2,081 | 4,273 | 336,709 | 340,982 | |
| 1-4 family residential | 1,801 | 285 | 1,023 | 3,109 | 191,993 | 195,102 | 73 |
| Home equity - first lien | | | 14 | 14 | 43,765 | 43,779 | 14 |
| Home equity - junior lien | 470 | 78 | 36 | 584 | 65,684 | 66,268 | |
| Subtotal: Real estate mortgage | 4,536 | 1,532 | 3,389 | 9,457 | 1,124,496 | 1,133,953 | 87 |
| Consumer | 43 | 18 | | 61 | 29,335 | 29,396 | |
| Total | \$ 8,508 | \$ 1,553 | \$ 5,528 | \$ 15,589 | \$ 1,852,961 | \$ 1,868,550 | 329 |

Consistent with regulatory guidance, Bancorp categorizes loans into credit risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends. Pass-rated loans included all risk-rated loans other than those classified as special mention, substandard, and doubtful, which are defined below:

Table of Contents

- Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. These potential weaknesses may result in deterioration of repayment prospects for the loan or of Bancorp's credit position at some future date.
- Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize repayment of the debt. They are characterized by the distinct possibility that Bancorp will sustain some loss if the deficiencies are not corrected.
- Substandard non-performing: Loans classified as substandard non-performing have all the characteristics of substandard loans and have been placed on non-accrual status or have been accounted for as troubled debt restructurings.
- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

As of March 31, 2015 and December 31, 2014, the internally assigned risk grades of loans by category were as follows:

| (in thousands) March 31, 2015 | Pass | Special Mention | Substandard | Substandard non-performing | Doubtful | Total loans |
|--|---------------------|--------------------|------------------|-------------------------------|-----------|---------------------|
| Commercial and industrial | \$ 574,010 | \$ 5,258 | \$ 8,670 | \$ 7,042 | \$ | \$ 594,980 |
| Construction and development, excluding undeveloped land | 92,587 | 4,798 | 1,945 | 516 | | 99,846 |
| Undeveloped land | 19,309 | 527 | 159 | | | 19,995 |
| Real estate mortgage | | | | | | |
| Commercial investment | 481,205 | 4,753 | 179 | 234 | | 486,371 |
| Owner occupied commercial | 326,208 | 8,550 | 3,934 | 2,762 | | 341,454 |
| 1-4 family residential | 188,536 | 1,668 | | 800 | | 191,004 |
| Home equity - first lien | 45,288 | | | | | 45,288 |
| Home equity - junior lien | 65,614 | 101 | | 109 | | 65,824 |
| Subtotal: Real estate mortgage | 1,106,851 | 15,072 | 4,113 | 3,905 | | 1,129,941 |
| Consumer | 29,100 | 74 | | 74 | | 29,248 |
| Total | \$ 1,821,857 | \$ 25,729 | \$ 14,887 | \$ 11,537 | \$ | \$ 1,874,010 |
| December 31, 2014 | | | | | | |
| Commercial and industrial | \$ 563,028 | \$ 6,215 | \$ 11,717 | \$ 7,240 | \$ | \$ 588,200 |
| Construction and development, excluding undeveloped land | 88,389 | 4,867 | 1,720 | 757 | | 95,733 |
| Undeveloped land | 20,578 | 530 | 160 | | | 21,268 |
| Real estate mortgage | | | | | | |
| Commercial investment | 482,415 | 4,991 | 181 | 235 | | 487,822 |
| Owner occupied commercial | 328,385 | 6,942 | 3,156 | 2,499 | | 340,982 |
| 1-4 family residential | 192,950 | 1,129 | | 1,023 | | 195,102 |
| Home equity - first lien | 43,765 | | | 14 | | 43,779 |
| Home equity - junior lien | 66,182 | 50 | | 36 | | 66,268 |
| Subtotal: Real estate mortgage | 1,113,697 | 13,112 | 3,337 | 3,807 | | 1,133,953 |
| Consumer | 29,244 | 76 | | 76 | | 29,396 |
| Total | \$ 1,814,936 | \$ 24,800 | \$ 16,934 | \$ 11,880 | \$ | \$ 1,868,550 |

Table of Contents**(4) Securities Sold Under Agreements to Repurchase**

Securities sold under agreements to repurchase, which represent excess funds from commercial customers as part of a cash management service, totaled \$59.9 million and \$69.6 million at March 31, 2015 and December 31, 2014, respectively. Bancorp enters into sales of securities under agreement to repurchase at a specified future date. At March 31, 2015, all of these financing arrangements had overnight maturities and were secured by government sponsored enterprise obligations and government agency mortgage-backed securities which were owned and under the control of Bancorp.

(5) Federal Home Loan Bank Advances

Bancorp had outstanding borrowings of \$36.7 million and \$36.8 million at March 31, 2015 and December 31, 2014, respectively, via ten separate fixed-rate advances. For two advances totaling \$30 million, both of which are non-callable, interest payments are due monthly, with principal due at maturity. For the remaining advances totaling \$6.7 million, principal and interest payments are due monthly based on an amortization schedule.

The following is a summary of the contractual maturities and average effective rates of outstanding advances:

| (In thousands) | March 31, 2015 | | December 31, 2014 | |
|----------------|----------------|-------|-------------------|-------|
| | Advance | Rate | Advance | Rate |
| 2015 | \$ 30,000 | 2.30% | \$ 30,000 | 2.30% |
| 2020 | 1,873 | 2.23% | 1,885 | 2.23% |
| 2021 | 480 | 2.12% | 497 | 2.12% |
| 2024 | 3,015 | 2.40% | 3,064 | 2.36% |
| 2028 | 1,376 | 1.47% | 1,386 | 1.47% |
| | \$ 36,744 | 2.27% | \$ 36,832 | 2.27% |

Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans totaling \$599.3 million under a blanket mortgage collateral agreement and FHLB stock. Bancorp views the borrowings as an effective alternative to higher cost time deposits to fund loan growth. At March 31, 2015, the amount of available credit from the FHLB totaled \$399.7 million.

(6) Derivative Financial Instruments

Occasionally, Bancorp enters into free-standing interest rate swaps for the benefits of its commercial customers who desire to hedge their exposure to changing interest rates. Bancorp offsets its interest rate exposure on commercial customer transactions by entering into offsetting swap agreements with approved reputable independent counterparties with substantially matching terms. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition are expected to have an insignificant

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

effect on earnings. Exchanges of cash flows related to the undesignated interest rate swap agreements for the first quarter of 2015 were offsetting and therefore had no net effect on Bancorp's earnings or cash flows.

Interest rate swap agreements derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Bancorp is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. Bancorp mitigates the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations.

At March 31, 2015 and December 31, 2014, Bancorp had outstanding undesignated interest rate swap contracts as follows:

| (dollar amounts in thousands) | Receiving | | Paying | |
|-----------------------------------|-------------------|----------------------|-------------------|----------------------|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Notional amount | \$ 7,052 | \$ 7,217 | \$ 7,052 | \$ 7,217 |
| Weighted average maturity (years) | 6.5 | 6.8 | 6.5 | 6.8 |
| Fair value | \$ (321) | \$ (401) | \$ 321 | \$ 401 |

In 2013, Bancorp entered into an interest rate swap to hedge cash flows of a \$10 million rolling fixed-rate three-month FHLB borrowing. For the purposes of hedging, the rolling fixed rate advances are considered to be a floating rate liability. The interest rate swap involves exchange of Bancorp's floating rate interest payments for fixed rate swap payments on the underlying principal amount. This swap was designated, and qualified, for cash-flow hedge accounting. The swap began December 6, 2013 and ends December 6, 2016. For derivative instruments that are designated and qualify as cash flow hedging instruments, the effective portion of gains or losses is reported as a component of other comprehensive income, and is subsequently reclassified into earnings as an adjustment to interest expense in periods in which the hedged forecasted transaction affects earnings. The following table details Bancorp's derivative position designated as a cash flow hedge, and the fair values as of March 31, 2015 and December 31, 2014.

(dollars in thousands)

| | Notional amount | Maturity date | Receive (variable) index | Pay fixed swap rate | Fair value | |
|----|--------------------|------------------|-----------------------------|------------------------|----------------|-------------------|
| | | | | | March 31, 2015 | December 31, 2014 |
| \$ | 10,000 | 12/6/2016 | US 3 Month LIBOR | 0.715% | \$ (4) | \$ 24 |

(7) **Goodwill and Intangible Assets**

US GAAP requires that goodwill and intangible assets with indefinite useful lives not be amortized, but instead be tested for impairment at least annually. Annual evaluations have resulted in no indication of impairment. Bancorp currently has goodwill in the amount of \$682 thousand from the 1996 acquisition of an Indiana bank. This goodwill is assigned to the commercial banking segment of Bancorp.

Bancorp recorded a core deposit intangible totaling \$2.5 million arising from the 2013 Oldham acquisition. For money market, savings and interest bearing checking accounts, this intangible asset is being amortized using a straight line method over 15 years. For the remainder of deposits, it is being amortized over a 10-year period using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. At March 31, 2015, the unamortized core deposit intangible was \$1.8 million.

Table of Contents

Mortgage servicing rights (MSRs) are initially recognized at fair value when mortgage loans are sold and amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions. MSRs are evaluated quarterly for impairment by comparing carrying value to fair value. The estimated fair values of MSRs at March 31, 2015 and December 31, 2014 were \$2.2 million and \$3.4 million, respectively. The total outstanding principal balances of loans serviced for others were \$418.4 million and \$421.1 million at March 31, 2015, and December 31, 2014, respectively.

Changes in the net carrying amount of MSRs for the three months ended March 31, 2015 and 2014 are shown in the following table.

| (in thousands) | For three months ended March 31, | | | |
|-----------------------------------|-------------------------------------|-------|----|-------|
| | 2015 | | | 2014 |
| Balance at beginning of period | \$ | 1,131 | \$ | 1,832 |
| Additions for mortgage loans sold | | 116 | | 80 |
| Amortization | | (180) | | (233) |
| Balance at March 31 | \$ | 1,067 | \$ | 1,679 |

(8) Defined Benefit Retirement Plan

Bancorp sponsors an unfunded, non-qualified, defined benefit retirement plan for three key officers (two current and one retired), and has no plans to increase the number of or the benefits to participants. Benefits vest based on 25 years of service. The former officer and one current officer are fully vested, and one current officer will be fully vested in 2017. The actuarially determined pension costs are expensed and accrued over the service period, and benefits are paid from Bancorp's assets. The net periodic benefits costs, which include interest cost and amortization of net losses, totaled \$36 thousand and \$32 thousand, for the three months ended March 31, 2015 and 2014, respectively.

(9) Commitments and Contingent Liabilities

As of March 31, 2015, Bancorp had various commitments outstanding that arose in the normal course of business, including standby letters of credit and commitments to extend credit, which are properly not reflected in the consolidated financial statements. In management's opinion, commitments to extend credit of \$492.3 million including standby letters of credit of \$11.7 million represent normal banking transactions, and no significant losses are anticipated to result from these commitments as of March 31, 2015. Commitments to extend credit were \$463.0 million, including letters of credit of \$11.0 million, as of December 31, 2014. Bancorp's maximum exposure to credit loss in the event of nonperformance by the other party to these commitments is represented by the contractual amount of these instruments. Commitments to extend credit are agreements to lend to a customer as long as collateral is available and there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend credit are mainly comprised of commercial lines of credit, construction and home equity credit lines. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-balance sheet instruments. Bancorp evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, equipment, and real estate.

Table of Contents

Standby letters of credit and financial guarantees written are conditional commitments issued by Bancorp to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private commercial transactions. Standby letters of credit generally have maturities of one to two years.

Also, as of March 31, 2015, in the normal course of business, there were pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate result of these legal actions and proceedings will not have a material adverse effect on the consolidated financial position or results of operations of Bancorp.

(10) Preferred Stock

Bancorp has a class of preferred stock (no par value; 1,000,000 shares authorized); the relative rights, preferences and other terms of the class or any series within the class will be determined by the Board of Directors prior to any issuance. None of this stock has been issued to date.

(11) Stock-Based Compensation

The fair value of all awards granted, net of estimated forfeitures, is recognized as compensation expense over the respective service period.

Bancorp currently has one stock-based compensation plan.

The 2005 Stock Incentive Plan expired in April 2015; however, options and SARs granted under this plan expire as late as 2020. At Bancorp's Annual Meeting of Shareholders held on April 22, 2015, shareholders approved the 2015 Omnibus Equity Compensation Plan and reserved the shares available from the 2005 plan for future awards under the 2015 plan. No additional shares were made available. As of March 31, 2015, there were 350,852 shares available for future awards.

Options and stock appreciation rights (SARs) granted generally have a vesting schedule of 20% per year. Options and SARs expire ten years after the grant date unless forfeited due to employment termination. No stock options have been granted since 2007.

Restricted shares granted to officers generally vest over five years. All restricted shares have been granted at a price equal to the market value of common stock at the time of grant. For all grants prior to 2015, grantees are entitled to dividend payments during the vesting period. For grants in 2015, forfeitable dividends are deferred until the shares are vested. Fair value of restricted shares is equal to the market value of the shares on the date of grant.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Grants of performance stock units (PSUs) vest based upon service and a three-year performance period which begins January 1 of the first year of the performance period. Because grantees are not entitled to dividend payments during the performance period, the fair value of these PSUs is estimated based upon the fair value of the underlying shares on the date of grant, adjusted for non-payment of dividends.

Grants of restricted stock units (RSUs) to directors are time-based and vest 12 months after grant date. Because grantees are entitled to deferred dividend payments at the end of the vesting period, the fair value of the RSUs are estimated based on the fair value of the underlying shares on the date of grant.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Bancorp has recognized stock-based compensation expense, within salaries and employee benefits for employees, and within other non-interest expense for directors, in the consolidated statements of income as follows:

| (in thousands) | For three months ended March 31, | |
|--|-------------------------------------|--------|
| | 2015 | 2014 |
| Stock-based compensation expense before income taxes | \$ 501 | \$ 290 |
| Less: deferred tax benefit | (176) | (102) |
| Reduction of net income | \$ 325 | \$ 188 |

Bancorp expects to record an additional \$1.6 million of stock-based compensation expense in 2015 for equity grants outstanding as of March 31, 2015. As of March 31, 2015, Bancorp has \$5.1 million of unrecognized stock-based compensation expense that is expected to be recorded as compensation expense over the next five years as awards vest. Bancorp received cash of \$296 thousand and \$463 thousand from the exercise of options during the first three months of 2015 and 2014, respectively.

The fair values of Bancorp's stock options and SARs are estimated at the date of grant using the Black-Scholes option pricing model, a leading formula for calculating the value of stock options and SARs. This model requires the input of subjective assumptions, changes to which can materially affect the fair value estimate. The fair value of restricted shares is determined by Bancorp's closing stock price on the date of grant. The following assumptions were used in SAR valuations at the grant date in each year:

| | 2015 | 2014 |
|-------------------------|-----------|-----------|
| Dividend yield | 2.97% | 2.94% |
| Expected volatility | 22.81% | 23.66% |
| Risk free interest rate | 1.91% | 2.22% |
| Expected life of SARs | 7.5 years | 7.0 years |

Dividend yield and expected volatility are based on historical information for Bancorp corresponding to the expected life of options and SARs granted. Expected volatility is the volatility of the underlying shares for the expected term on a monthly basis. The risk free interest rate is the implied yield currently available on U.S. Treasury issues with a remaining term equal to the expected life of the options. The expected life of SARs is based on actual experience of past like-term SARs and options. Bancorp evaluates historical exercise and post-vesting termination behavior when determining the expected life.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

A summary of stock option and SARs activity and related information for the three months ended March 31, 2015 follows:

| At December 31, 2014 | | | | | | |
|------------------------|------|-------------|-------|----------|------|-----|
| Unvested | 194 | 21.03-29.16 | 24.83 | 1,650 | 4.57 | 7.7 |
| Exercised | (14) | 21.03-26.83 | 24.03 | 130 | 5.70 | |
| Vested and exercisable | 577 | 21.03-29.05 | 24.14 | 6,119 | 5.26 | 3.7 |
| Total outstanding | 753 | 21.03-34.43 | 26.03 | \$ 7,270 | 5.18 | 4.8 |
| Vested year-to-date | 66 | 21.03-29.05 | 23.74 | \$ 710 | 4.65 | |

Intrinsic value for stock options and SARs is defined as the amount by which the current market price of the underlying stock exceeds the exercise price.

For the periods ending December 31, 2014 and March 31, 2015, Bancorp granted shares of restricted common stock as outlined in the following table:

| | Number | Grant date weighted-average cost |
|--|----------|----------------------------------|
| Unvested at December 31, 2013 | 124,556 | \$ 22.77 |
| Shares awarded | 39,730 | 29.12 |
| Restrictions lapsed and shares released to employees/directors | (44,724) | 22.69 |
| Shares forfeited | (5,469) | 23.77 |
| Unvested at December 31, 2014 | 114,093 | \$ 24.95 |
| Shares awarded | 34,890 | 34.43 |
| Restrictions lapsed and shares released to employees/directors | (40,360) | 23.83 |
| Shares forfeited | | |
| Unvested at March 31, 2015 | 108,623 | \$ 28.42 |

Table of Contents

Bancorp awarded performance-based restricted stock units (PSUs) to executive officers of Bancorp, the three-year performance period for which began January 1 of the award year. The following table outlines the PSU grants.

| Grant year | Vesting period in years | Fair value | Expected shares to be awarded |
|------------|-------------------------|------------|-------------------------------|
| 2013 | 3 | 20.38 | 36,792 |
| 2014 | 3 | 26.42 | 25,012 |
| 2015 | 3 | 31.54 | 19,774 |

In the first quarter of 2015, Bancorp awarded 6,080 RSUs to directors of Bancorp with a grant date fair value of \$200 thousand.

(12) Net Income Per Share

The following table reflects, for the three months ended March 31, 2015 and 2014, net income (the numerator) and average shares outstanding (the denominator) for the basic and diluted net income per share computations:

| (In thousands, except per share data) | Three months ended | | | |
|--|--------------------|----------|----------|------|
| | March 31 | | March 31 | |
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 9,255 | \$ 8,177 | | |
| Average shares outstanding | 14,647 | 14,506 | | |
| Dilutive securities | 205 | 195 | | |
| Average shares outstanding including dilutive securities | 14,852 | 14,701 | | |
| Net income per share, basic | \$ 0.63 | \$ 0.56 | | |
| Net income per share, diluted | \$ 0.62 | \$ 0.56 | | |

(13) Segments

Bancorp's principal activities include commercial banking and investment management and trust. Commercial banking provides a full range of loan and deposit products to individual consumers and businesses. Commercial banking also includes Bancorp's mortgage origination and securities brokerage activity. Investment management and trust provides wealth management services including investment management, trust and estate administration, and retirement plan services.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Financial information for each business segment reflects that which is specifically identifiable or allocated based on an internal allocation method. Income taxes are allocated based on the effective federal income tax rate adjusted for any tax exempt activity. All tax exempt activity and provision for loan losses have been allocated to the commercial banking segment. Measurement of performance of business segments is based on the management structure of Bancorp and is not necessarily comparable with similar information for any other financial institution. Information presented is also not necessarily indicative of the segments' operations if they were independent entities.

Selected financial information by business segment for the three month periods ended March 31, 2015 and 2014 follows:

| (in thousands) | Commercial banking | Investment management and trust | Total |
|--|-----------------------|---------------------------------------|-----------|
| Three months ended March 31, 2015 | | | |
| Net interest income | \$ 21,560 | \$ 54 | \$ 21,614 |
| Provision for loan losses | | | |
| Investment management and trust services | | 4,552 | 4,552 |
| All other non-interest income | 5,121 | | 5,121 |
| Non-interest expense | 15,191 | 2,588 | 17,779 |
| Income before income taxes | 11,490 | 2,018 | 13,508 |
| Tax expense | 3,534 | 719 | 4,253 |
| Net income | \$ 7,956 | \$ 1,299 | \$ 9,255 |
| Three months ended March 31, 2014 | | | |
| Net interest income | \$ 20,181 | \$ 47 | \$ 20,228 |
| Provision for loan losses | 350 | | 350 |
| Investment management and trust services | | 4,568 | 4,568 |
| All other non-interest income | 4,890 | 17 | 4,907 |
| Non-interest expense | 14,962 | 2,582 | 17,544 |
| Income before income taxes | 9,759 | 2,050 | 11,809 |
| Tax expense | 2,903 | 729 | 3,632 |
| Net income | \$ 6,856 | \$ 1,321 | \$ 8,177 |

Table of Contents**(14) Income Taxes**

An analysis of the difference between the statutory and effective tax rates for the three months ended March 31, 2015 and 2014 follows:

| | Three months ended March 31, | |
|--|-------------------------------------|-------------|
| | 2015 | 2014 |
| U.S. federal statutory tax rate | 35.0% | 35.0% |
| Tax credits | (2.4) | (1.6) |
| Tax exempt interest income | (1.4) | (1.7) |
| Cash surrender value of life insurance | (1.0) | (2.0) |
| State income taxes | 0.9 | 1.0 |
| Other, net | 0.4 | 0.1 |
| Effective tax rate | 31.5% | 30.8% |

US GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of March 31, 2015 and December 31, 2014, the gross amount of unrecognized tax benefits, including penalties and interest, was \$45 thousand and \$42 thousand, respectively. If recognized, the tax benefits would reduce tax expense and accordingly, increase net income. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, status of examination, litigation and legislative activity and the addition or elimination of uncertain tax positions.

Federal and state income tax returns are subject to examination for the years after 2011.

(15) Assets and Liabilities Measured and Reported at Fair Value

Bancorp follows the provisions of the authoritative guidance for fair value measurements. This guidance is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by US GAAP. The guidance prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in US GAAP.

The authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The guidance also establishes a hierarchy to group assets and liabilities carried at fair value in three levels based upon the markets in which the assets and liabilities trade and the reliability of assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Table of Contents

- Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect internal estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include pricing models, discounted cash flows and other similar techniques.

Authoritative guidance requires maximization of use of observable inputs and minimization of use of unobservable inputs in fair value measurements. Where there exists limited or no observable market data, Bancorp uses its own estimates generally considering characteristics of the asset/liability, the current economic and competitive environment and other factors. For this reason, results cannot be determined with precision and may not be realized on an actual sale or immediate settlement of the asset or liability.

Bancorp's investment securities available-for-sale and interest rate swaps are recorded at fair value on a recurring basis. Other accounts including mortgage loans held for sale, mortgage servicing rights, impaired loans and other real estate owned may be recorded at fair value on a non-recurring basis, generally in the application of lower of cost or market adjustments or write-downs of specific assets.

The portfolio of investment securities available-for-sale is comprised of U.S. Treasury and other U.S. government obligations, debt securities of U.S. government-sponsored corporations (including mortgage-backed securities), obligations of state and political subdivisions and corporate equity securities. U.S. Treasury and corporate equity securities are priced using quoted prices of identical securities in an active market. These measurements are classified as Level 1 in the hierarchy above. All other securities are priced using standard industry models or matrices with various assumptions such as yield curves, volatility, prepayment speeds, default rates, time value, credit rating and market prices for similar instruments. These assumptions are generally observable in the market place and can be derived from or supported by observable data. These measurements are classified as Level 2 in the hierarchy above.

Interest rate swaps are valued using primarily Level 2 inputs. Fair value measurements generally based on benchmark forward yield curves and other relevant observable market data. For purposes of potential valuation adjustments to derivative positions, Bancorp evaluates the credit risk of its counterparties as well as its own credit risk. To date, Bancorp has not realized any losses due to a counterparty's inability to perform and the change in value of derivative assets and liabilities attributable to credit risk was not significant during 2015.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Below are carrying values of assets measured at fair value on a recurring basis.

| (in thousands) | Total | Fair value at March 31, 2015 | | |
|---|-------------------|---------------------------------|-------------------|-----------|
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Investment securities available for sale | | | | |
| U.S. Treasury and other U.S. government obligations | \$ 60,000 | \$ 60,000 | \$ | \$ |
| Government sponsored enterprise obligations | 175,814 | | 175,814 | |
| Mortgage-backed securities - government agencies | 169,895 | | 169,895 | |
| Obligations of states and political subdivisions | 64,979 | | 64,979 | |
| Corporate equity securities | 1,014 | 1,014 | | |
| Total investment securities available for sale | 471,702 | 61,014 | 410,688 | |
| Interest rate swaps | 321 | | 321 | |
| Total assets | \$ 472,023 | \$ 61,014 | \$ 411,009 | \$ |
| Liabilities | | | | |
| Interest rate swaps | \$ 325 | \$ | \$ 325 | \$ |
| | | | | |
| (in thousands) | Total | Fair value at December 31, 2014 | | |
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Investment securities available for sale | | | | |
| U.S. Treasury and other U.S. government obligations | \$ 70,000 | \$ 70,000 | \$ | \$ |
| Government sponsored enterprise obligations | 204,986 | | 204,986 | |
| Mortgage-backed securities - government agencies | 174,270 | | 174,270 | |
| Obligations of states and political subdivisions | 62,834 | | 62,834 | |
| Corporate equity securities | 966 | 966 | | |
| Total investment securities available for sale | 513,056 | 70,966 | 442,090 | |
| Interest rate swaps | 425 | | 425 | |
| Total assets | \$ 513,481 | \$ 70,966 | \$ 442,515 | \$ |
| Liabilities | | | | |
| Interest rate swaps | \$ 401 | \$ | \$ 401 | \$ |

Table of Contents

Bancorp did not have any financial instruments classified within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis at March 31, 2015 or December 31, 2014.

MSRs are recorded at fair value upon capitalization, are amortized to correspond with estimated servicing income, and are periodically assessed for impairment based on fair value at the reporting date. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The model incorporates assumptions that market participants would use in estimating future net servicing income. These measurements are classified as Level 3. At March 31, 2015 and December 31, 2014 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost. Accordingly, the MSRs are not included in either table below for March 31, 2015 or December 31, 2014. See Note 7 for more information regarding MSRs.

For impaired loans in the table below, the fair value is calculated as the carrying value of only loans with a specific valuation allowance, less the specific allowance. The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. Bancorp determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. As of March 31, 2015, total impaired loans with a valuation allowance were \$8.5 million, and the specific allowance totaled \$1.1 million, resulting in a fair value of \$7.4 million, compared to total impaired loans with a valuation allowance of \$7.8 million, and the specific allowance allocation totaling \$1.4 million, resulting in a fair value of \$6.4 million at December 31, 2014. The losses represent the change in the specific allowances for the period indicated.

Other real estate owned (OREO), which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is based on appraisals performed by external parties which use judgments and assumptions that are property-specific and sensitive to changes in the overall economic environment. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. For OREO in the table below, the fair value is the carrying value of only parcels of OREO which have a carrying value equal to appraised value. The losses represent write-downs which occurred during the period indicated. At March 31, 2015 and December 31, 2014, the carrying value of all other real estate owned was \$5.9 million and \$6.0 million, respectively.

Table of Contents

Below are the carrying values of assets measured at fair value on a non-recurring basis.

| (in thousands) | Total | Fair value at March 31, 2015 | | | Level 3 | Losses for 3 month period ended March 31, 2015 |
|-------------------------|-----------|------------------------------|---------|-----------|---------|--|
| | | Level 1 | Level 2 | | | |
| Impaired loans | \$ 7,352 | \$ | \$ | \$ 7,352 | \$ | (206) |
| Other real estate owned | 4,946 | | | 4,946 | | |
| Total | \$ 12,298 | \$ | \$ | \$ 12,298 | \$ | (206) |

| (in thousands) | Total | Fair value at December 31, 2014 | | | Level 3 | Losses for 3 month period ended March 31, 2014 |
|-------------------------|-----------|---------------------------------|---------|-----------|---------|--|
| | | Level 1 | Level 2 | | | |
| Impaired loans | \$ 6,449 | \$ | \$ | \$ 6,449 | \$ | (180) |
| Other real estate owned | 5,032 | | | 5,032 | | |
| Total | \$ 11,481 | \$ | \$ | \$ 11,481 | \$ | (180) |

In the case of the securities portfolio, Bancorp monitors the valuation technique utilized by pricing agencies to ascertain when transfers between levels have occurred. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the three months ended March 31, 2015, there were no transfers between Levels 1, 2, or 3. For Level 3 assets measured at fair value on a non-recurring basis as of March 31, 2015, the significant unobservable inputs used in the fair value measurements are presented below.

| | | | | | |
|---------------------------------------|----------|-----------|--|-------------------------|-------|
| | | | | | |
| Impaired loans - collateral dependent | \$ 2,826 | Appraisal | | Appraisal discounts (%) | 8.8% |
| | | | | | |
| Other real estate owned | 4,946 | Appraisal | | Appraisal discounts (%) | 14.5% |

Table of Contents**(16) Disclosure of Financial Instruments Not Reported at Fair Value**

US GAAP requires disclosure of the fair value of financial assets and liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The carrying amounts, estimated fair values, and placement in the fair value hierarchy of Bancorp's financial instruments are as follows:

| (in thousands) March 31, 2015 | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|--------------------|--------------|-----------|--------------|-----------|
| Financial assets | | | | | |
| Cash and short-term investments | \$ 57,519 | \$ 57,519 | \$ 57,519 | | \$ |
| Mortgage loans held for sale | 6,481 | 6,712 | | 6,712 | |
| Federal Home Loan Bank stock and other securities | 6,347 | 6,347 | | 6,347 | |
| Loans, net | 1,849,128 | 1,859,051 | | | 1,859,051 |
| Accrued interest receivable | 6,133 | 6,133 | 6,133 | | |
| Financial liabilities | | | | | |
| Deposits | \$ 2,110,229 | \$ 2,111,131 | | \$ 2,111,131 | \$ |
| Short-term borrowings | 74,314 | 74,314 | | 74,314 | |
| FHLB advances | 36,744 | 37,244 | | 37,244 | |
| Accrued interest payable | 127 | 127 | 127 | | |

| (in thousands) December 31, 2014 | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|--------------------|--------------|-----------|--------------|-----------|
| Financial assets | | | | | |
| Cash and short-term investments | \$ 74,241 | \$ 74,241 | \$ 74,241 | | \$ |
| Mortgage loans held for sale | 3,747 | 3,876 | | 3,876 | |
| Federal Home Loan Bank stock and other securities | 6,347 | 6,347 | | 6,347 | |
| Loans, net | 1,843,630 | 1,863,568 | | | 1,863,568 |
| Accrued interest receivable | 5,980 | 5,980 | 5,980 | | |
| Financial liabilities | | | | | |
| Deposits | \$ 2,123,627 | \$ 2,124,904 | | \$ 2,124,904 | \$ |
| Short-term borrowings | 116,949 | 116,949 | | 116,949 | |
| FHLB advances | 36,832 | 37,714 | | 37,714 | |
| Accrued interest payable | 131 | 131 | 131 | | |

Management used the following methods and assumptions to estimate the fair value of each class of financial instrument for which it is practicable to estimate the value.

Cash, short-term investments, accrued interest receivable/payable and short-term borrowings

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

For these short-term instruments, carrying amount is a reasonable estimate of fair value.

Table of Contents

Federal Home Loan Bank stock and other securities

For these securities without readily available market values, carrying amount is a reasonable estimate of fair value as it equals the amount due from FHLB or other issuer at upon redemption.

Mortgage loans held for sale

Mortgage loans held for sale are initially recorded at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is determined by market quotes for similar loans based on loan type, term, rate, size and the borrower's credit score.

Loans, net

US GAAP prescribes the exit price concept for estimating fair value of loans. Because there is not an active market (exit price) for trading virtually all types of loans in Bancorp's portfolio, fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (e.g. entrance price).

Deposits

Fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. Fair value of fixed-rate certificates of deposits is estimated by discounting future cash flows using the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances

Fair value of FHLB advances is estimated by discounting future cash flows using estimates of current market rate for instruments with similar terms and remaining maturities.

Commitments to extend credit and standby letters of credit

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Fair values of commitments to extend credit are estimated using fees currently charged to enter into similar agreements and the creditworthiness of the customers. Fair values of standby letters of credit are based on fees currently charged for similar agreements or estimated cost to terminate them or otherwise settle obligations with counterparties at the reporting date. Fair value of commitments to extend credit, letters of credit and lines of credit is not presented since management believes the fair value to be insignificant.

Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. Because no market exists for a significant portion of Bancorp's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Therefore, calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. Changes in assumptions could significantly affect estimates.

Table of Contents

(17) Regulatory Matters

Bancorp and the Bank are subject to various capital requirements prescribed by banking regulations and administered by state and federal banking agencies. Under these requirements, Bancorp and the Bank must meet minimum amounts and percentages of Tier 1, common equity Tier 1, and total capital, as defined, to risk weighted assets and Tier 1 capital to average assets. Risk weighted assets are determined by applying certain risk weightings prescribed by the regulations to various categories of assets and off-balance sheet commitments. Capital and risk weighted assets may be further subject to qualitative judgments by regulators as to components, risk weighting and other factors. Failure to meet the capital requirements can result in certain mandatory, and possibly discretionary, corrective actions prescribed by the regulations or determined to be necessary by the regulators, which could materially affect the unaudited consolidated financial statements.

In 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to Bancorp and Bank. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in

Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III) and changes required by the Dodd-Frank Act. The final rules implementing the Basel III regulatory capital reforms became effective for Bancorp and Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Capital ratios for December 31, 2014 were calculated using the former rules and for March 31, 2015 ratios were calculated using the new Basel III rules. For Bancorp, key differences under Basel III include risk weighting for commitments under one year and higher risk weighting for certain commercial real estate and construction loans. These differences resulted in higher risk-weighted assets, and therefore, somewhat lower risk-based capital ratios.

Bancorp and the Bank met all capital requirements to which they were subject as of March 31, 2015.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

The following table sets forth consolidated Bancorp's and the Bank's risk based capital amounts and ratios as of March 31, 2015 and December 31, 2014.

| (Dollars in thousands) March 31, 2015 | Actual | | Minimum for adequately capitalized | | Minimum for well capitalized | |
|--|------------|--------|------------------------------------|-------|------------------------------|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total risk-based capital (1) | | | | | | |
| Consolidated | \$ 287,402 | 13.82% | \$ 166,369 | 8.00% | NA | NA |
| Bank | 281,890 | 13.58% | 166,062 | 8.00% | \$ 207,577 | 10.00% |
| Common Equity Tier 1 risk-based capital (2) | | | | | | |
| Consolidated | \$ 262,520 | 12.63% | \$ 93,534 | 4.50% | NA | NA |
| Bank | 257,008 | 12.38% | 93,420 | 4.50% | \$ 124,560 | 6.00% |
| Tier 1 risk-based capital (1) | | | | | | |
| Consolidated | \$ 262,520 | 12.63% | \$ 124,713 | 6.00% | NA | NA |
| Bank | 257,008 | 12.38% | 124,560 | 6.00% | \$ 124,560 | 6.00% |
| Leverage (3) | | | | | | |
| Consolidated | \$ 262,520 | 10.41% | \$ 100,872 | 4.00% | NA | NA |
| Bank | 257,008 | 10.21% | 100,689 | 4.00% | \$ 125,861 | 5.00% |

| December 31, 2014 | Actual | | Minimum for adequately capitalized | | Minimum for well capitalized | |
|--------------------------------------|------------|--------|------------------------------------|-------|------------------------------|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total risk-based capital (1) | | | | | | |
| Consolidated | \$ 280,228 | 13.86% | \$ 161,748 | 8.00% | NA | NA |
| Bank | 274,345 | 13.59% | 161,498 | 8.00% | \$ 201,873 | 10.00% |
| Tier 1 risk-based capital (1) | | | | | | |
| Consolidated | \$ 255,308 | 12.63% | \$ 80,858 | 4.00% | NA | NA |
| Bank | 249,425 | 12.36% | 80,720 | 4.00% | \$ 121,080 | 6.00% |
| Leverage (3) | | | | | | |
| Consolidated | \$ 255,308 | 10.26% | \$ 74,651 | 3.00% | NA | NA |
| Bank | 249,425 | 10.04% | 74,529 | 3.00% | \$ 124,216 | 5.00% |

(1) Ratio is computed in relation to risk-weighted assets.

(2) Ratio became effective January 2015.

(3) Ratio is computed in relation to average assets.

NA Not applicable. Regulatory framework does not define well capitalized for holding companies.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This item discusses the results of operations for Stock Yards Bancorp, Inc. (Bancorp or Company), and its subsidiary, Stock Yards Bank & Trust Company (Bank) for the three months ended March 31, 2015 and compares this period with the same period of the previous year. Unless otherwise indicated, all references in this discussion to the Bank include Bancorp. In addition, the discussion describes the significant changes in the financial condition of Bancorp and the Bank that have occurred during the first three months of 2015 compared to the year ended December 31, 2014. This discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes presented in Part 1, Item 1 of this report.

This report contains forward-looking statements under the Private Securities Litigation Reform Act that involve risks and uncertainties. Although Bancorp believes the assumptions underlying the forward-looking statements contained herein are reasonable, any of these assumptions could be inaccurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to the following: economic conditions both generally and more specifically in the markets in which Bancorp and the Bank operate; competition for Bancorp's customers from other providers of financial services; government legislation and regulation which change from time to time and over which Bancorp has no control; changes in interest rates; material unforeseen changes in liquidity, results of operations, or financial condition of Bancorp's customers; and other risks detailed in Bancorp's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of Bancorp. Management is not aware of any material changes to the risk factors discussed in Part 1, Item 1A of our Form 10-K for the year ended December 31, 2014.

Overview of 2015 through March 31

Bancorp completed the first quarter of 2015 with net income of \$9.3 million or 13% more than the comparable period of 2014. The increase is due to higher net interest income, no provision for loan losses, and higher non-interest income. These increases were partially offset by higher non-interest expenses and resultant higher income tax expense. Diluted earnings per share for the first quarter of 2015 were \$0.62, compared to the first quarter of 2014 at \$0.56.

As is the case with most banks, the primary source of Bancorp's revenue is net interest income and fees from various financial services provided to customers. Net interest income is the difference between interest income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and the interest rates earned on those loans are critical to overall profitability. Similarly, deposit volume is crucial to funding loans and rates paid on deposits directly impact profitability. Business volumes are influenced by competition, new business acquisition efforts and economic factors including market interest rates, business spending, consumer confidence and competitive conditions within the marketplace.

Net interest income increased \$1,386,000, or 6.9%, for the first three months of 2015, compared to the same period in 2014. The positive effects of increased volumes on earning assets and lower costs on time deposits were partially offset by the negative effect of declining interest rates earned. The net interest margin declined to 3.72% for the first quarter of 2015, compared to 3.76% for the same period in 2014.

In response to its assessment of risk in the loan portfolio, Bancorp did not record a provision for loan losses in the first quarter of 2015, compared to a \$350 thousand provision in the first quarter of 2014. The provision for loan losses represents a charge to earnings necessary to

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for the inherent losses on outstanding loans.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Bancorp's allowance for loan losses was 1.33% of total loans at March 31, 2015, compared to 1.33% of total loans at December 31, 2014, and 1.65% at March 31, 2014.

Total non-interest income in the first quarter of 2015 increased \$198,000, or 2.1%, compared to the same period in 2014, and remained consistent at 31% of total revenues. Increases in mortgage banking income and bankcard transaction revenue contributed to the growth, partially offset by a decrease in brokerage commissions.

Total non-interest expense in the first quarter of 2015 increased \$235,000, or 1.3%, compared to the same period in 2014 due to gains on sales of foreclosed assets in 2014 which did not recur in 2015. This was partially offset by decreases in data processing and net occupancy expenses. Bancorp's efficiency ratio in the first quarter of 2015 was 56.4% compared with 58.6% in the first quarter last year.

Bancorp's effective tax rate increased to 31.5% in 2015 from 30.8% in 2014. The increase in income tax expense from 2014 to 2015 is the result of proportionally lower nontaxable income from the increase in cash value of life insurance and municipal securities. This was partially offset by the effect of reclassifying amortization of tax credit investments to other non-interest expense in 2015.

Tangible common equity, a non-GAAP measure, is a measure of a company's capital which is useful in evaluating the quality and adequacy of capital. The ratio of tangible common equity to total tangible assets was 10.56% as of March 31, 2015, compared to 10.05% at December 31, 2014. See the Non-GAAP Financial Measures section for details on reconciliation to US GAAP measures.

The following sections provide more details on subjects presented in this overview.

a) Results Of Operations

Net income of \$9.3 million for the three months ended March 31, 2015 increased \$1.1 million, or 13.2%, from \$8.2 million for the comparable 2014 period. Basic net income per share was \$0.63 for the first quarter of 2015, an increase of 12.5% from the \$0.56 for the first quarter of 2014. Diluted net income per share was \$0.62 for the first quarter of 2015, an increase of 10.7% from the \$0.56 for the first quarter of 2014. See Note 12 for additional information related to net income per share.

Reflecting increased net income, annualized return on average assets and annualized return on average stockholders' equity were 1.49% and 14.18%, respectively, for the first quarter of 2015, compared to 1.41% and 14.14%, respectively, for the same period in 2014.

Net Interest Income

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

The following tables present the average balance sheets for the three month periods ended March 31, 2015 and 2014 along with the related calculation of tax-equivalent net interest income, net interest margin and net interest spread for the related periods. See the notes following the tables for further explanation.

Table of Contents**Average Balances and Interest Rates Taxable Equivalent Basis**

| (Dollars in thousands) | Three months ended March 31 | | | | | |
|---|-----------------------------|------------------|-----------------|---------------------|------------------|-----------------|
| | 2015 | | | 2014 | | |
| | Average balances | Interest | Average rate | Average balances | Interest | Average rate |
| Earning assets: | | | | | | |
| Federal funds sold | \$ 86,855 | \$ 68 | 0.32% | \$ 96,770 | \$ 79 | 0.33% |
| Mortgage loans held for sale | 3,631 | 39 | 4.36% | 2,783 | 31 | 4.52% |
| Securities: | | | | | | |
| Taxable | 358,094 | 1,970 | 2.23% | 323,892 | 1,770 | 2.22% |
| Tax-exempt | 59,764 | 416 | 2.82% | 59,242 | 426 | 2.92% |
| FHLB stock and other securities | 6,347 | 64 | 4.09% | 7,347 | 67 | 3.70% |
| Loans, net of unearned income | 1,869,542 | 20,525 | 4.45% | 1,717,175 | 19,480 | 4.60% |
| Total earning assets | 2,384,233 | 23,082 | 3.93% | 2,207,209 | 21,853 | 4.02% |
| Less allowance for loan losses | 25,210 | | | 29,082 | | |
| | 2,359,023 | | | 2,178,127 | | |
| Non-earning assets: | | | | | | |
| Cash and due from banks | 36,836 | | | 35,430 | | |
| Premises and equipment | 39,513 | | | 39,573 | | |
| Accrued interest receivable and other assets | 90,381 | | | 93,184 | | |
| Total assets | \$ 2,525,753 | | | \$ 2,346,314 | | |
| Interest bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Interest bearing demand deposits | \$ 500,952 | \$ 129 | 0.10% | \$ 481,313 | \$ 131 | 0.11% |
| Savings deposits | 114,381 | 10 | 0.04% | 103,637 | 10 | 0.04% |
| Money market deposits | 674,924 | 334 | 0.20% | 617,727 | 307 | 0.20% |
| Time deposits | 306,345 | 500 | 0.66% | 349,633 | 692 | 0.80% |
| Securities sold under agreements to repurchase | 64,344 | 37 | 0.23% | 60,895 | 34 | 0.23% |
| Fed funds purchased and other short term borrowings | 15,874 | 7 | 0.18% | 16,654 | 6 | 0.15% |
| FHLB advances | 36,774 | 216 | 2.38% | 34,302 | 196 | 2.32% |
| Total interest bearing liabilities | 1,713,594 | 1,233 | 0.29% | 1,664,161 | 1,376 | 0.34% |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing demand deposits | 520,253 | | | 421,517 | | |
| Accrued interest payable and other liabilities | 27,212 | | | 26,049 | | |
| Total liabilities | 2,261,059 | | | 2,111,727 | | |
| Stockholders equity | 264,694 | | | 234,587 | | |
| Total liabilities and stockholders equity | \$ 2,525,753 | | | \$ 2,346,314 | | |
| Net interest income | | \$ 21,849 | | | \$ 20,477 | |
| Net interest spread | | | 3.64% | | | 3.68% |
| Net interest margin | | | 3.72% | | | 3.76% |

Table of Contents

Notes to the average balance and interest rate tables:

- Net interest income, the most significant component of Bancorp's earnings, is total interest income less total interest expense. The level of net interest income is determined by the mix and volume of interest earning assets, interest bearing deposits and borrowed funds, and changes in interest rates.
- Net interest spread is the difference between the taxable equivalent rate earned on interest earning assets less the rate expensed on interest bearing liabilities.
- Net interest margin represents net interest income on a taxable equivalent basis as a percentage of average interest earning assets. Net interest margin is affected by both the interest rate spread and the level of non-interest bearing sources of funds, primarily consisting of demand deposits and stockholders' equity.
- Interest income on a fully tax equivalent basis includes the additional amount of interest income that would have been earned if investments in certain tax-exempt interest earning assets had been made in assets subject to federal taxes yielding the same after-tax income. Interest income on municipal securities and loans have been calculated on a fully tax equivalent basis using a federal income tax rate of 35%. The approximate tax equivalent adjustments to interest income were \$235 thousand and \$249 thousand, respectively, for the three month periods ended March 31, 2015 and 2014.
- Average balances for loans include the principal balance of non-accrual loans and exclude participation loans accounted for as secured borrowings. These participation loans averaged \$8.1 million and \$9.4 million for the three month periods ended March 31, 2015 and 2014.

Fully taxable equivalent net interest income of \$21.8 million for the three months ended March 31, 2015 increased \$1.4 million, or 6.7%, from \$20.5 million when compared to the same period last year. Net interest spread and net interest margin were 3.64% and 3.72%, respectively, for the first quarter of 2015 and 3.68% and 3.76%, respectively, for the first quarter of 2014.

Approximately \$717 million, or 38%, of Bancorp's loans are variable rate; most of these loans are indexed to the prime rate and may reprice as that rate changes. However, approximately \$366 million of variable rate loans have reached their contractual floor of 4% or higher. Approximately \$148 million of variable rate loans have contractual floors below 4%. The remaining \$203 million of variable rate loans have no contractual floor. Bancorp intends to establish floors whenever possible upon acquisition of new customers. Bancorp's variable rate loans are primarily comprised of commercial lines of credit and real estate loans. At inception, most of Bancorp's fixed rate loans are priced in relation to the five year Treasury bond.

Average earning assets for the first three months of 2015 increased \$177.0 million, or 8.0% to \$2.38 billion, compared to \$2.21 billion for the same period of 2014, reflecting growth in the loan portfolio and investment securities. Average interest bearing liabilities for the first three

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

months of 2015 increased \$49.4 million, or 3.0% to \$1.71 billion compared to \$1.66 billion for the same period of 2014, primarily due to increases in money market, interest bearing demand, and savings deposit accounts, partially offset by decreases in time deposits.

Asset/Liability Management and Interest Rate Risk

Managing interest rate risk is fundamental for the financial services industry. The primary objective of interest rate risk management is to neutralize effects of interest rate changes on net income. By considering

Table of Contents

both on and off-balance sheet financial instruments, management evaluates interest rate sensitivity while attempting to optimize net interest income within the constraints of prudent capital adequacy, liquidity needs, market opportunities and customer requirements.

Interest Rate Simulation Sensitivity Analysis

Bancorp uses an earnings simulation model to estimate and evaluate the impact of an immediate change in interest rates on earnings in a one year forecast. The simulation model is designed to reflect the dynamics of interest earning assets, interest bearing liabilities and off-balance sheet financial instruments. By estimating the effects of interest rate increases and decreases, the model can reveal approximate interest rate risk exposure. The simulation model is used by management to gauge approximate results given a specific change in interest rates at a given point in time. The model is therefore a tool to indicate earnings trends in given interest rate scenarios and does not indicate actual expected results.

The March 31, 2015 simulation analysis, which shows very little interest rate sensitivity, indicates that an increase in interest rates of 100 to 200 basis points would have a negative effect on net interest income, and a decrease of 100 basis points in interest rates would also have a negative impact. These estimates are summarized below.

| | Net interest income change |
|----------------|---------------------------------------|
| Increase 200bp | (4.20)% |
| Increase 100bp | (3.28) |
| Decrease 100bp | (2.42) |
| Decrease 200bp | N/A |

Loans indexed to the prime rate, with floors of 4% or higher, comprise \$366 million or approximately 20% of total loans. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect, captured in the simulation analysis above, negatively impacts the effect of rising rates.

The scenario of rates decreasing 200 bp is not reasonably possible given current low rates for short-term instruments and most deposits.

Undesignated derivative instruments described in Note 6 are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other non-interest income. Because of matching terms of offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings, and are therefore not included in the simulation analysis results above.

Derivatives designated as cash flow hedges described in Note 6 are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded net of tax in other comprehensive income.

Provision for Loan Losses

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for the inherent losses on outstanding loans. Bancorp did not record a provision for loan losses in the first quarter of 2015, compared to a provision of \$350 thousand for the same period of 2014. The allowance for loan losses is calculated

Table of Contents

after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. Based on this analysis, provisions for loan losses are determined and recorded. The provision reflects an allowance methodology that is driven by risk ratings, historical losses, and qualitative factors. The levels of non-performing loans continue to decrease and many key indicators of loan quality continue to show improvement.

Management utilizes loan grading procedures which result in specific allowance allocations for the estimated inherent risk of loss. For all loans graded, but not individually reviewed, a general allowance allocation is computed using factors typically developed over time based on actual loss experience. The specific and general allocations plus consideration of qualitative factors represent management's best estimate of probable losses contained in the loan portfolio at the evaluation date. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb any credit losses. Based on this detailed analysis of credit risk, management considers the allowance for loan losses adequate to cover probable losses inherent in the loan portfolio at March 31, 2015.

An analysis of the changes in the allowance for loan losses and selected ratios for the three month periods ended March 31, 2015 and 2014 follows:

| (Dollars in thousands) | Three months ended March 31, | |
|--|------------------------------|--------------|
| | 2015 | 2014 |
| Balance at the beginning of the period | \$ 24,920 | \$ 28,522 |
| Provision for loan losses | | 350 |
| Loan charge-offs, net of recoveries | (38) | (281) |
| Balance at the end of the period | \$ 24,882 | \$ 28,591 |
| Average loans, net of unearned income | \$ 1,877,594 | \$ 1,726,610 |
| Provision for loan losses to average loans (1) | 0.00% | 0.02% |
| Net loan charge-offs to average loans (1) | 0.00% | 0.02% |
| Allowance for loan losses to average loans | 1.33% | 1.66% |
| Allowance for loan losses to period-end loans | 1.33% | 1.65% |

(1) Amounts not annualized

Loans are charged off when deemed uncollectible and a loss is identified or after underlying collateral has been liquidated; however, collection efforts may continue and future recoveries may occur. Periodically, loans are partially charged off to the net realizable value based upon collateral analysis.

Table of Contents

An analysis of net charge-offs by loan category for the three month periods ended March 31, 2015 and 2014 follows:

| (in thousands) | Three months ended March 31 | | | |
|--|--|------|----|-------------|
| Net loan charge-offs (recoveries) | 2015 | | | 2014 |
| Commercial and industrial | \$ | 5 | \$ | (9) |
| Construction and development, excluding undeveloped land | | | | |
| Undeveloped land | | | | |
| Real estate mortgage - commercial investment | | | | 37 |
| Real estate mortgage - owner occupied commercial | | 1 | | 94 |
| Real estate mortgage - 1-4 family residential | | 51 | | 143 |
| Home equity | | (4) | | (1) |
| Consumer | | (15) | | 17 |
| Total net loan charge-offs | \$ | 38 | \$ | 281 |

Table of Contents**Non-interest Income and Expenses**

The following table sets forth the major components of non-interest income and expenses for the three month periods ended March 31, 2015 and 2014.

| (dollars in thousands) | Three months ended March 31, | | Change | % |
|---|---------------------------------|------------------|---------------|-------------|
| | 2015 | 2014 | | |
| Non-interest income: | | | | |
| Investment management and trust revenue | \$ 4,552 | \$ 4,568 | \$ (16) | -0.4% |
| Service charges on deposit accounts | 2,080 | 2,103 | (23) | -1.1% |
| Bankcard transaction revenue | 1,122 | 1,075 | 47 | 4.4% |
| Mortgage banking revenue | 828 | 588 | 240 | 40.8% |
| Brokerage commissions and fees | 461 | 505 | (44) | -8.7% |
| Bank owned life insurance income | 222 | 236 | (14) | -5.9% |
| Other | 408 | 400 | 8 | 2.0% |
| Total non-interest income | \$ 9,673 | \$ 9,475 | \$ 198 | 2.1% |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | \$ 11,100 | \$ 11,118 | \$ (18) | -0.2% |
| Net occupancy expense | 1,469 | 1,556 | (87) | -5.6% |
| Data processing expense | 1,454 | 1,560 | (106) | -6.8% |
| Furniture and equipment expense | 247 | 268 | (21) | -7.8% |
| FDIC insurance expense | 297 | 342 | (45) | -13.2% |
| Loss (gain) on other real estate owned | 20 | (343) | 363 | * |
| Other | 3,192 | 3,043 | 149 | 4.9% |
| Total non-interest expenses | \$ 17,779 | \$ 17,544 | \$ 235 | 1.3% |

(*) - Amount exceeds 100%

Total non-interest income increased \$198 thousand, or 2.1%, in the first quarter of 2015 compared to the same period in 2014.

The largest component of non-interest income is investment management and trust revenue. The magnitude of investment management and trust revenue distinguishes Bancorp from other community banks of similar asset size. Trust assets under management totaled \$2.29 billion at March 31, 2015, compared to \$2.28 billion at March 31, 2014. Investment management and trust revenue, which constitutes an average of 47% of non-interest income at March 31, 2015, was virtually flat for the first quarter of 2015 compared to the same period in 2014. Recurring fees, which generally comprise over 95% of the investment management and trust revenue, increased 3% for the first quarter of 2015, compared to the first quarter of 2014. However, one-time executor and other non-recurring fees decreased for the first quarter of 2015, compared to the same period in 2014. Most recurring fees earned for managing accounts are based on a percentage of market value on a monthly basis. While fees are based on market values, they typically do not fluctuate directly with the overall stock market, as accounts usually contain fixed income and equity asset classes, which generally react inversely to each other. Some revenues of the investment

Table of Contents

management and trust department, most notably executor, insurance, and some employee benefit plan-related fees, are non-recurring in nature and the timing of these revenues corresponds with the related administrative activities. Management expects to encounter slower growth of our investment management and trust revenue in 2015 as some revenue that boosted 2014 results is not expected to recur at the same level in 2015. Still, management believes the investment management and trust department will continue to factor significantly in financial results and provide strategic diversity to revenue streams.

Service charges on deposit accounts decreased \$23 thousand, or 1.1%, in the first quarter of 2015, as compared to the same period in 2014. Service charge income is driven by transaction volume, which can fluctuate throughout the year. A significant component of service charges is related to fees earned on overdrawn checking accounts. Management expects this source of revenue to decline slightly in 2015 due to anticipated changes in customer behavior and increased regulatory restrictions.

Bankcard transaction revenue increased \$47 thousand, or 4.4%, for the first quarter of 2015, as compared to the same period in 2014 and primarily represents income Bancorp derives from customers' use of debit cards. The increase in 2015 primarily reflects an increase in the volume of transactions, partially offset by a decrease in the interchange rates received. Most of this revenue is interchange income based on rates set by service providers in a competitive market. Beginning in October 2011, this rate was set by the Federal Reserve for banks with over \$10 billion in assets. While this threshold indicates Bancorp will not be directly affected, this change has affected Bancorp and other similarly sized institutions as merchants gravitate to lower cost interchanges. Volume, which is dependent on consumer behavior, is expected to continue to increase slowly. However, management expects interchange rates to decrease, resulting in income from this source to remain consistent with levels experienced in 2014.

Mortgage banking revenue primarily includes gains on sales of mortgage loans. Bancorp's mortgage banking department originates residential mortgage loans to be sold in the secondary market. Interest rates on the loans sold are locked with the borrower and investor prior to closing the loans, thus Bancorp bears no interest rate risk related to these loans. The department offers conventional, VA and FHA financing, for purchases and refinances, as well as programs for first time home buyers. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Mortgage banking revenue increased \$240 thousand, or 40.8%, in the first quarter of 2015 compared to the same period of 2014. Market rates for mortgage loans decreased in the first quarter of 2015, resulting in increased refinance activity coupled with an increase in purchase activity, in the first quarter of 2015 compared to the same period in 2014.

Brokerage commissions and fees decreased \$44 thousand, or 8.7%, in the first quarter of 2015 compared to the same period of 2014, corresponding to overall brokerage volume. Brokerage commissions and fees earned consist primarily of stock, bond and mutual fund sales as well as wrap fees on accounts. Wrap fees are charges for investment programs that bundle together a suite of services, such as brokerage, advisory, research, and management, and are based on a percentage of assets. Bancorp deploys its brokers primarily through its branch network via an arrangement with a third party broker-dealer, while larger managed accounts are serviced in the investment management and trust department.

Bank owned life insurance (BOLI) income totaled \$222 thousand for the first three months of 2015, compared to \$236 thousand for the same period in 2014. BOLI represents the cash surrender value for life insurance policies on certain key employees who have provided consent for Bancorp to be the beneficiary of a portion of such policies. Any proceeds received under the policies and the related change in cash surrender value are recorded as non-interest income. This income helps offset the cost of various employee benefits.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

Other non-interest income increased \$8 thousand, or 2.0%, in the first quarter of 2015 as compared to the same period in 2014, due to a variety of other factors, none of which are individually significant.

Total non-interest expenses increased \$235 thousand, or 1.3%, for the first quarter of 2015 as compared to the same period in 2014.

Salaries and benefits are the largest component of non-interest expenses and decreased \$18 thousand or 0.2% for the first quarter of 2015 compared to the same period of 2014, largely due to decreased bonus accruals and health insurance costs, mostly offset by higher salaries and stock-based compensation expense. The increase in stock-based compensation is primarily due to a first quarter 2014 expense adjustment related to performance stock units, which decreased stock-based compensation by \$185 thousand. At March 31, 2015, Bancorp had 533 full-time equivalent employees compared to 522 at March 31, 2014.

Net occupancy expense decreased \$87 thousand, or 5.6%, in the first quarter of 2015, as compared to the same period of 2014, largely due to unusually high maintenance costs in 2014 related to the severe winter.

Data processing expense decreased \$106 thousand or 6.8% in the first quarter of 2015, as compared to the same period of 2014, largely due to decreases in expenses for bank card processing/reissuance and data processing for trust operations. This category includes ongoing computer equipment maintenance costs related to investments in new technology needed to maintain and improve the quality of delivery channels and internal resources.

Furniture and equipment expense decreased \$21 thousand, or 7.8%, in the first quarter of 2015, as compared to the same period in 2014, due to a variety of factors, none of which is individually significant. Costs of capital asset additions flow through the statement of income over the lives of the assets in the form of depreciation expense.

FDIC insurance expense was \$297 thousand in the first quarter of 2015, compared to \$342 thousand for the same period in 2014. The assessment is calculated by the FDIC and adjusted quarterly. The decline in expense is due primarily to a reduction in the assessment rate, which was driven by improved credit metrics in 2015.

Losses on other real estate owned (OREO) totaled \$20 thousand for the first quarter of 2015, compared to gains of \$343 thousand for the first quarter of 2014. Bancorp liquidated several properties at prices greater than their carrying values in 2014 resulting in gains on foreclosed assets.

Other non-interest expenses increased \$149 thousand or 4.9% in the first quarter of 2015, as compared to the same period in 2014, due largely to tax credit amortization of \$158 thousand that was formerly recorded as income tax expense in 2014. This category also includes MSR amortization, legal and professional fees, advertising, printing, mail and telecommunications, none of which had individually significant variances.

Income Taxes

In the first quarter of 2015, Bancorp recorded income tax expense of \$4.3 million, compared to \$3.6 million for the same period in 2014. The effective rate for the three month period ended March 31, 2015 was 31.5%, compared to 30.8% for the same period in 2014. The increase in income tax expense from 2014 to 2015 is the result of proportionally lower nontaxable income from the increase in cash value of life insurance and municipal securities. This was partially offset by the effect of amortization of tax credit

Table of Contents

investments which was recorded in other non-interest expense in 2015 and a component of tax expense in 2014.

Commitments

Bancorp uses a variety of financial instruments in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. A discussion of Bancorp's commitments is included in Note 9.

Other commitments discussed in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014, have not materially changed since that report was filed, relative to qualitative and quantitative disclosures of fixed and determinable contractual obligations.

b) Financial Condition

Balance Sheet

Total assets decreased \$51.6 million, or 2.0%, from \$2.564 billion on December 31, 2014 to \$2.512 billion on March 31, 2015. The most significant contributor to the decrease was securities available for sale, which decreased \$41.4 million in the first quarter largely as a result of maturing short-term securities. Bancorp invests excess funds in short-term investment securities at each quarter end as part of a state tax minimization strategy. These securities, with maturities of 30 days or less, totaled \$60 million and \$95 million for March 31, 2015 and December 31, 2014, respectively. Cash and cash equivalents decreased \$16.7 million. Loans increased \$5.5 million, while mortgage loans held for sale increased \$2.7 million. Other assets decreased \$3.1 million, driven primarily by a \$2.1 million decrease in deferred tax assets.

Total liabilities decreased \$59.3 million, or 2.6%, from \$2.304 billion December 31, 2014 to \$2.245 billion on March 31, 2015. The most significant component of the decrease was federal funds purchased, which decreased \$33.0 million, or 69.5%. Bancorp utilizes short-term lines of credit to manage its overall liquidity position. Deposits decreased \$13.4 million or 0.6%. Securities sold under agreement to repurchase decreased \$9.7 million or 13.9%, and other liabilities decreased \$3.2 million or 12.1%.

Table of Contents**Elements of Loan Portfolio**

The following table sets forth the major classifications of the loan portfolio.

| (in thousands) | | |
|--|----------------|-------------------|
| Loans by Type | March 31, 2015 | December 31, 2014 |
| Commercial and industrial | \$ 594,980 | \$ 588,200 |
| Construction and development, excluding undeveloped land | 99,846 | 95,733 |
| Undeveloped land (1) | 19,995 | 21,268 |
| Real estate mortgage: | | |
| Commercial investment | 486,371 | 487,822 |
| Owner occupied commercial | 341,454 | 340,982 |
| 1-4 family residential | 191,004 | 195,102 |
| Home equity - first lien | 45,288 | 43,779 |
| Home equity - junior lien | 65,824 | 66,268 |
| Subtotal: Real estate mortgage | 1,129,941 | 1,133,953 |
| Consumer | 29,248 | 29,396 |
| Total Loans | \$ 1,874,010 | \$ 1,868,550 |

(1) Undeveloped land consists of land initially acquired for development by the borrower, but for which no development has yet taken place.

Bancorp occasionally enters into loan participation agreements with other banks to diversify credit risk. For certain sold participation loans, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their share of the loan without permission from Bancorp. US GAAP requires the participated portion of these loans to be recorded as secured borrowings. These participated loans are included in the commercial and industrial and real estate mortgage loan totals above, and a corresponding liability is recorded in other liabilities. At March 31, 2015 and December 31, 2014, the total participated portions of loans of this nature were \$8.0 million and \$8.1 million, respectively.

Table of Contents**Non-performing Loans and Assets**

Information summarizing non-performing assets, including non-accrual loans follows:

| (Dollars in thousands) | March 31, 2015 | December 31, 2014 |
|---|------------------|-------------------|
| Non-accrual loans | \$ 5,279 | \$ 5,199 |
| Troubled debt restructuring | 6,257 | 6,352 |
| Loans past due 90 days or more and still accruing | 1 | 329 |
| Non-performing loans | 11,537 | 11,880 |
| Foreclosed real estate | 5,891 | 5,977 |
| Non-performing assets | \$ 17,428 | \$ 17,857 |
| Non-performing loans as a percentage of total loans | 0.62% | 0.64% |
| Non-performing assets as a percentage of total assets | 0.69% | 0.70% |

The following table sets forth the major classifications of non-accrual loans:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|-----------------|-------------------|
| Non-accrual loans by type | | |
| Commercial and industrial | \$ 1,276 | \$ 1,381 |
| Construction and development, excluding undeveloped land | 516 | 516 |
| Undeveloped land | | |
| Real estate mortgage - commercial investment | 234 | 235 |
| Real estate mortgage - owner occupied commercial | 2,344 | 2,081 |
| Real estate mortgage - 1-4 family residential | 800 | 950 |
| Home equity and consumer loans | 109 | 36 |
| Total loans | \$ 5,279 | \$ 5,199 |

c) **Liquidity**

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity is provided by short-term liquid assets that can be converted to cash, investment securities available-for-sale, various lines of credit available to Bancorp, and the ability to attract funds from external sources, principally deposits. Management believes it has the ability to increase deposits at any time by offering rates slightly higher than market rates.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Bancorp's most liquid assets are comprised of cash and due from banks, available for sale marketable investment securities and federal funds sold. Federal funds sold totaled \$23.6 million at March 31, 2015. These investments normally have overnight maturities and are used for general daily liquidity purposes.

Table of Contents

The fair value of the available for sale investment portfolio was \$471.7 million at March 31, 2015. The portfolio includes maturities of approximately \$82.4 million over the next twelve months, including \$60 million of short-term securities which matured in April 2015. Combined with federal funds sold, these offer substantial resources to meet either new loan demand or reductions in Bancorp's deposit funding base. Bancorp pledges portions of its investment securities portfolio to secure public fund deposits, cash balances of certain investment management and trust accounts, and securities sold under agreements to repurchase. At March 31, 2015, total investment securities pledged for these purposes comprised 53% of the available for sale investment portfolio, leaving \$221.5 million of unpledged securities.

Bancorp has a large base of core customer deposits, defined as demand, savings, money market deposit accounts and time deposits up to \$250 thousand. At March 31, 2015, such deposits totaled \$2.1 billion and represented 98% of Bancorp's total deposits. Because these core deposits are less volatile and are often tied to other products of Bancorp through long lasting relationships they do not put heavy pressure on liquidity. However, many of Bancorp's individual depositors currently maintain historically high balances. When market conditions improve, these balances will likely decrease, potentially putting some strain on Bancorp's liquidity position. As of March 31, 2015, Bancorp had only \$5.5 million or 0.3% of total deposits, in brokered deposits, which are predominantly comprised of Certificate of Deposit Account Registry Service (CDARs) deposits, a program which allows Bancorp to offer FDIC insurance up to \$50 million in deposits per customer through reciprocal agreements with other network participating banks.

Other sources of funds available to meet daily needs include the sales of securities under agreements to repurchase. Also, Bancorp is a member of the FHLB of Cincinnati. As a member of the FHLB, Bancorp has access to credit products of the FHLB. Bancorp views these borrowings as a low cost alternative to other time deposits. At March 31, 2015, the amount of available credit from the FHLB totaled \$399.7 million. Additionally, Bancorp had available federal funds purchased lines with correspondent banks totaling \$70 million.

Bancorp's principal source of cash revenues is dividends paid to it as the sole shareholder of the Bank. At March 31, 2015, the Bank may pay up to \$40.6 million in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank.

d) Capital Resources

At March 31, 2015, stockholders' equity totaled \$267.6 million, an increase of \$7.7 million from December 31, 2014. See the Consolidated Statement of Changes in Stockholders' Equity for further detail of the changes in equity since the end of 2014. One component of equity is accumulated other comprehensive income which, for Bancorp, consists of net unrealized gains or losses on securities available for sale and hedging instruments, as well as a minimum pension liability, each net of taxes. Accumulated other comprehensive income was \$3.9 million and \$2.1 million at March 31, 2015 and December 31, 2014, respectively. The \$1.8 million increase is primarily a reflection of the positive effect of the changing interest rate environment during the first quarter of 2015 on the valuation of Bancorp's portfolio of securities available for sale.

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Table of Contents

The following table sets forth Bancorp's and the Bank's risk based capital ratios as of March 31, 2015 and December 31, 2014.

| | March 31, 2015 | December 31, 2014 |
|--|---------------------------|------------------------------|
| Total risk-based capital (1) | | |
| Consolidated | 13.82% | 13.86% |
| Bank | 13.58% | 13.59% |
| Common equity tier 1 risk-based capital (1) (2) | | |
| Consolidated | 12.63% | N/A |
| Bank | 12.38% | N/A |
| Tier 1 risk-based capital (1) | | |
| Consolidated | 12.63% | 12.63% |
| Bank | 12.38% | 12.36% |
| Leverage (3) | | |
| Consolidated | 10.41% | 10.26% |
| Bank | 10.21% | 10.04% |

(1) Under the banking agencies risk-based capital guidelines, assets and credit-equivalent amounts of derivatives and off-balance sheet exposures are assigned to broad risk categories. The aggregate dollar amount in each risk category is multiplied by the associated risk weight of the category. The resulting weighted values are added together, resulting in the Bancorp's total risk-weighted assets. These ratios are computed in relation to average assets.

(2) The final rules described herein established common equity tier 1 capital effective January 1, 2015. The ratio was not prescribed in prior years. For Bancorp, this is equal to tier 1 capital, and therefore, the ratio is equal to the tier 1 risk-based capital ratio.

(3) Ratio is computed in relation to average assets

In 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to Bancorp and Bank. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III) and changes required by the Dodd-Frank Act. Final rules implementing the Basel III regulatory capital reforms became effective for Bancorp and Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are:

- a new common equity Tier 1 capital ratio of 4.5%,
- a Tier 1 risk-based capital ratio of 6% (increased from 4%),

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

- a total risk-based capital ratio of 8% (unchanged from current rules), and
- a Tier 1 leverage ratio of 4% for all institutions.

Table of Contents

The rules also establish a capital conservation buffer of 2.5%, to be phased in over three years, above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in:

- a common equity Tier 1 risk-based capital ratio of 7.0%,
- a Tier 1 risk-based capital ratio of 8.5%, and
- a total risk-based capital ratio of 10.5%.

The final rules allow banks and their holding companies with less than \$250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. Bancorp has opted out of this requirement.

For Bancorp, the key differences under Basel III include risk weighting for commitments under one year and higher risk weighting for certain commercial real estate and construction loans. These differences resulted in higher risk-weighted assets, and therefore, somewhat lower risk-based capital ratios. Bancorp estimates the effect of these key differences decreased the Tier 1 risk-based capital ratio 0.30% and the total risk based-capital ratio 0.34%.

Management believes that as of March 31, 2015, Bancorp meets the requirements to be considered well-capitalized under the new rules.

e) Non-GAAP Financial Measures

In addition to capital ratios defined by banking regulators, Bancorp considers various ratios when evaluating capital adequacy, including tangible common equity to tangible assets, and tangible common equity per share, all of which are non-GAAP measures. Bancorp believes these ratios are important because of their widespread use by investors as means to evaluate capital adequacy, as they reflect the level of capital available to withstand unexpected market conditions. Because US GAAP does not include capital ratio measures, there are no US GAAP financial measures comparable to these ratios.

Table of Contents

The following table reconciles Bancorp's calculation of the measures to amounts reported under US GAAP.

| (in thousands, except per share data) | March 31, 2015 | | December 31, 2014 | |
|--|----------------|-----------|-------------------|-----------|
| Total equity | \$ | 267,601 | \$ | 259,895 |
| Less core deposit intangible | | (1,761) | | (1,820) |
| Less goodwill | | (682) | | (682) |
| Tangible common equity | \$ | 265,158 | \$ | 257,393 |
| Total assets | \$ | 2,512,263 | \$ | 2,563,868 |
| Less core deposit intangible | | (1,761) | | (1,820) |
| Less goodwill | | (682) | | (682) |
| Total tangible assets | \$ | 2,509,820 | \$ | 2,561,366 |
| Total shareholders' equity to total assets | | 10.65% | | 10.14% |
| Tangible common equity ratio | | 10.56% | | 10.05% |
| Number of outstanding shares | | 14,795 | | 14,745 |
| Book value per share | \$ | 18.09 | \$ | 17.63 |
| Tangible common equity per share | | 17.92 | | 17.46 |

f) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance. The ASU was originally effective for fiscal years and interim periods beginning after December 15, 2016. In April 2015, FASB voted to propose a delay in the effective date. The proposed effective date will be annual reporting periods beginning after December 15, 2017, and the interim periods within that year. Bancorp is still evaluating the potential impact of adoption of ASU 2014-09.

Table of ContentsItem 3. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Bancorp maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in reports it files with the Securities and Exchange Commission (SEC), and to record, process, summarize and report this information within the time periods specified in the rules and forms of the SEC. Based on their evaluation of Bancorp's disclosure controls and procedures as of the end of the quarterly period covered by this report, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that Bancorp is able to collect, process and disclose the information it is required to disclose in reports it files with the SEC within the required time periods.

Based on the evaluation of Bancorp's disclosure controls and procedures by the Chief Executive and Chief Financial Officers, there were no significant changes during the quarter ended March 31, 2015 in Bancorp's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended March 31, 2015.

| | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly announced plan (2) | Maximum number of shares that may yet be purchased under the plan |
|--------------------------|--------------------------------------|------------------------------|---|---|
| January 1 - January 31 | | \$ | | |
| February 1 - February 28 | 13,204 | 32.56 | | |
| March 1 - March 31 | 12,027 | 34.06 | | |
| Total | 25,231 | \$ 33.28 | | |

(1) Activity represents shares of stock withheld to pay taxes due upon exercise of stock appreciation rights, vesting of restricted stock or share-based awards. This activity has no impact on the number of shares that may be purchased under a Board-approved plan.

- (2) Since 2008, there has been no active share buyback plan.

Table of Contents

Item 6. Exhibits

The following exhibits are filed or furnished as a part of this report:

| Exhibit Number | Description of exhibit |
|---------------------------|---|
| 31.1 | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by David P. Heintzman |
| 31.2 | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by Nancy B. Davis |
| 32 | Certifications pursuant to 18 U.S.C. Section 1350 |
| 101 | The following financial statements from the Stock Yards Bancorp, Inc. March 31, 2015 Quarterly Report on Form 10-Q, filed on May 7, 2015, formatted in eXtensible Business Reporting Language (XBRL): |
| (1) | Consolidated Balance Sheets |
| (2) | Consolidated Statements of Income |
| (3) | Consolidated Statements of Comprehensive Income |
| (4) | Consolidated Statement of Changes in Stockholders' Equity |
| (5) | Consolidated Statements of Cash Flows |
| (6) | Notes to Consolidated Financial Statements |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STOCK YARDS BANCORP, INC.

Date: May 7, 2015

By: */s/ David P. Heintzman*
David P. Heintzman, Chairman

and Chief Executive Officer

Date: May 7, 2015

By: */s/ Nancy B. Davis*
Nancy B. Davis, Executive Vice President,

Treasurer and Chief Financial Officer